

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	7c
Date of Meeting	February 24, 2015

DATE: February 4, 2015
TO: Ted Fick, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna Zachrisson, Business Leader, Airport Dining and Retail
SUBJECT: Airport Dining and Retail Outreach and Leasing Plans

SYNOPSIS

This briefing will provide an overview of a proposed plan for community outreach that will inform and educate about new leasing opportunities at Seattle-Tacoma International Airport. This outreach effort will place primary emphasis on public events publicized in the community by direct communications with target groups, paid advertising, media relations, social media as well as other means of communication. The public events will provide small, local, minority-owned and other businesses with opportunities to receive first-hand information from Port staff and to meet current tenants and ask questions about doing business at the Airport. In addition to leasing opportunities, the Port also will direct outreach to architects, engineers, contractors and suppliers to become part of the Airport Dining and Retail program through the provision of products and services, and thereby increase the program's economic benefit to the community.

This briefing also will provide an overview of the new leasing opportunities that encompass a broad spectrum of offerings for the traveling public in food service, retail and passenger services. It also will summarize the criteria used to determine grouping of locations into packages, as well as an approximate timeline for the competition of each package. While the leasing plan must remain flexible in order accommodate change and market feedback, and some locations have yet to be definitively specified, it currently contains approximately 44 food service and 34 retail/services locations. In order to maximize the appeal of these opportunities to a broad variety of businesses, the locations (both existing and in development) will be offered in large packages (4 or more units) and small packages (2-3 units), as well as single units.

BACKGROUND

In 2014, the Airport Dining and Retail (ADR) program achieved another year of record sales and revenue generating a ripple effect of economic benefit in the community. Sales from dining and retail locations reached \$220 million contributing to the livelihood of hundreds of employees and other suppliers of goods and services. Total program activity earned the Port \$46 million in revenue. The program is the second largest source of non-

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aeronautical revenue, and represents more than 10% of total Airport revenues. The current year 2015 represents the start of a multi-year redevelopment which is intended to preserve these revenue streams and ultimately grow the program on multiple metrics of both financial and community value.

The Port has reached a key milestone in the redevelopment of the dining and retail program. With the vast majority of leases set to expire in the 2015-2017 timeframe, Port staff has been focused on preparing an ADR master plan that will phase expirations and create new leasing opportunities over several years. The analysis and planning work of the ADR master plan is now transitioning to the external communication phase about the new opportunities of the program. Until 2004-2005, opportunities for local companies to do business in the Airport were limited. Under the previous management model, any such opportunities were offered by the then-master concessionaire. A notable example is Starbucks Coffee in the early 1990s. The Airport did not engage in direct leasing with local business at the time, thus the Port directed Starbucks to the master concessionaire. Many local businesses still believe that they must lease via a master/prime concessionaire in order to gain access to the Airport. Engaging the community about Airport opportunities is not an easy task, largely due to remaining misperceptions about how the Port manages the business at the Airport. As a result, the outreach effort must be a robust one in order to garner the attention of businesses that may not have considered the Airport as an available opportunity.

The Port has a strong track-record of outreach for available leasing opportunities. In conjunction with the development of the Central Terminal in 2003, under the Airport's then-third party leasing consultant, Port outreach and advertising drew strong attendance and resulted in more than 100 proposals for the 10 new available spaces (Exhibit A). In May 2013, when a limited number of food service, retail and small business kiosks were available, the Port held an outreach event to promote these opportunities. Nearly 90 companies attended the event, resulting in numerous proposals, and requests to be placed in a database for notification of future outreach events and lease opportunities, particularly for the more substantial offering of opportunities anticipated in the 2015-2016 timeframe. The Port's small business kiosks and short-term small business retail units (Metsker Maps and Sub Pop Records) were leased as a result of this outreach event.

2015 Review and Stakeholder Committee

As the Port embarks on its most substantial outreach effort for dining and retail opportunities in over a decade, the Port is seeking stakeholder input to strengthen the outreach plan in an evolutionary manner as the leasing activity takes place over the coming years. At the direction of the Commission and the CEO, and led by the Office of Social Responsibility (OSR), the Port formed a committee comprised of three community members for the purpose of idea exchange about the dining and retail redevelopment and more specifically about the outreach strategies. The objective with this exchange is to

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assure that outreach efforts are truly effective at reaching the target community audiences with messages that easily resonate.

The committee met in January and February for three half-day sessions focused on the program. The idea exchange in these meetings has benefited from the members' experience in community relations, business and small business contracting advocacy. The group learned about the historical background and current configuration of the dining and retail program, visited a tenant location to talk with a minority-owned business owner, discussed the complexities of the redevelopment phasing, and asked questions and offered constructive critique. Staff heard the about the importance of the Port communicating generously and continuously with its community stakeholders, while recognizing that the power of perception in communicating complex issues will make this task challenging. Members of the group encouraged the Port to ask experienced small and minority-owned tenants to tell their own stories of building a business at the Airport as a means of helping others evaluate opportunities.. The group also encouraged staff to explore the means of broadening the benefit of the ADR program to include incentivizing those doing business at the Airport to hire small and minority service businesses (such as architects and construction firms), as well as incentivizing the sourcing of products for sale at the Airport from such businesses. Staff anticipates that the dialogue with the group will continue as the leasing effort takes shape.

Outreach Plan Overview

As part of the proposed outreach plan, the Port initially plans to conduct *at least* four local outreach events in 2015. At these events, Port staff will educate about the business environment at the Airport and solicit interest for the near-term opportunities, as well as those anticipated in 2016-2017. Providing information in advance of these opportunities will allow businesses ample time to research and consider proposals. The events are planned to be held in April, May, September and October at the Airport and in various locations in the community. Staff will solicit stakeholder input regarding the best venues for such community events. A new component for the 2015 outreach events is a "Doing Business at Sea-Tac" video that will provide a glimpse of 'behind the scenes' operations and tenant testimonials about doing business in the Airport. Leasing materials and contact information for Port and consultant staff are already prepared as part of the 2013 outreach. Opportunities for one-on-one consultation with staff or consultant staff will be available at every event and encouraged throughout the overall process.

The focus is to present a balanced description of the complexities associated with doing business in an airport environment. While the volumes of potential customers are unmatched by any street-side location, there are significant challenges and risks that are unique to an airport. For example, airlines may leave the market, go out of business, merge or lose market share which will impact passenger traffic. Airports are not immune to cyclical swings in the economy and a dining or tenant will experience good times and bad over the course of a lease term. The investment required for airport locations

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typically are much higher than for street locations, both due to the additional expenses of construction (e.g. night shifts, complicated logistics and security requirements) and more stringent code requirements for safe operations in an airport.

The success of these events will depend greatly on the promotion and community outreach efforts to encourage attendance. Current tenants will receive information in conjunction with regular monthly management meetings. In partnership with the program's public involvement consultant firm, PRR, and the Office of Social Responsibility, the Port will use paid advertising, participation at community events, email and written communications to existing database lists of interested individuals and/or groups, media relations and social media promotion to drive participation. The Airport Dining and Retail program staff manages a database of nearly 300 interested businesses that will receive notifications. Particular focus will be placed on organizations working with communities of color, minority-owned business, chambers of commerce, social justice organizations and economic development councils.

Proposed Outreach Plan Summary	
Hosts:	Airport Dining and Retail and the Office of Social Responsibility
Support:	PRR (public involvement firm), AirProjects (leasing consultant)
Objective:	Attract new local, small and women and minority-owned and disadvantaged businesses to the dining and retail mix at Sea-Tac Airport
Events:	At least four 90 minute sessions
Locations:	Airport as well as satellite events in Seattle, Tacoma, Eastside. (with stakeholder input regarding locations)
Materials:	"Doing Business at Sea-Tac" leasing packet, PowerPoint and video presentation, contact information
Promotion:	Paid advertising in daily, weekly, community newspapers and publications. Paid sponsorships in event programs. Direct outreach to community organizations, speaker opportunities. Email and electronic news bulletins and social media messages
Website:	Leasing website (launched in 2013), www.lease.seatacshops.com with unit specific information and application forms

Other Outreach

Outreach to the local business community for the purpose of promoting leasing is a key activity, but there will be other ways to participate in the Airport Dining and Retail program.

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Contractors/Architects/Engineering Community

In past experience, the ability for in-coming food and retail operators to connect with a pool of designers and contractors interested and available to provide services for design and construction of new locations has been too limited. The result is an undersupply relative to demand and thus a problem for operators. The Airport Dining and Retail staff, in collaboration with Aviation Project Management and the Central Procurement Office, has explored ways to increase the pool of such vendors. While the Port will not intervene in a business relationship by recommending design or construction entities to tenants, staff is developing a means to familiarize more designers and contractors with doing business for tenants at the Airport, and at the same time create a directory of firms that have demonstrated interest. Staff is collaborating with Information and Communication Technology (ICT) in developing an online curriculum for contractors, architects, engineers and other providers of services to in-coming food service and retail operators. Companies that complete the curriculum will be the basis of creating a list for in-coming operators seeking such services. This will allow new businesses to know about available service providers that have a basic understanding of Airport requirements, and can investigate alternatives. This program, and the outreach associated with it, will be developed fully by the end of 2015. As with the overall leasing outreach plan, this effort will also be developed in partnership with OSR.

Suppliers and Vendors

Food service and retail operators at the Airport procure millions of dollars in merchandise every year for sale to passengers. A portion of this procurement comes from local, small and minority-owned businesses. Airport Dining and Retail staff has initiated a project with its largest operators to identify the suppliers and the scope of this procurement. From this baseline, staff will work with its operators, OSR and the Washington State Office of Women and Minority Owned Business Enterprises (OMWBE) to increase the scope of this type of procurement, including the possibility of incentivizing such procurement as part of the competitive process for Airport opportunities.

In particular, staff will work with tenant buyers to encourage sourcing from minority businesses, and also those who may be eligible for certification as an Airport Concessions Disadvantaged Business Enterprises (ACDBE). While ACDBE certification typically is associated with owners/partners in food service and retail locations, ACDBE participation also can be achieved by way of purchases from ACDBE certified suppliers. This is a form of ACDBE participation which can benefit many more businesses and individuals in the community as the opportunities are greater in number. The Airport would benefit from this additional ACDBE participation toward the achievement of its goal. Targeted outreach to current and potential vendors will be required to increase participation. This program and a plan for needed outreach will be fully developed by the end of 2015.

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Leasing Plan Overview

The Airport Dining and Retail program currently is comprised of 92 different locations (not including kiosk locations). The largest number of units are under lease agreement with prime operators due to expire between December 31, 2016 and May 31, 2017. In December 2014, the Commission approved the foundation of a multi-year phasing of the program transition by modifying the lease agreements of three prime operators in the Airport. HMSHost will operate 10 food service locations until 2023 (of which seven (7) are Starbucks Coffee locations) and Hudson will operate convenience and specialty retail in eight (8) locations until 2022 and nine (9) locations until 2024. The Airport's duty free business is under lease agreement until 2020.

With these building blocks in place, the Airport staff can construct a leasing plan for other existing and yet-to-be-developed units. The leasing plan creates "packages" of either multiple units or single unit locations for presentation to the marketplace. The timing for the release of packages for competition will begin in 2015 and likely continue through 2018 as new facilities come into service. As preliminarily proposed, there are 17 food service packages and 22 retail and/or personal services packages in the plan. As the leasing effort unfolds, staff expects that modifications will be necessary in a fluid business and Airport environment.

Food Service: The 17 food service packages contain as many as seven units and few as two locations, in addition to single unit opportunities. The restaurant types are as varied as full-service dining, casual dining, quick serve, coffee and/or snacks, gourmet markets, and quick serve (fast food) offerings. The food service packages also include units in the new North Satellite. (Exhibit B)

Retail/Passenger Services: The 22 retail packages also include services such as manicure, massage, hair salon and shoeshine because all of these services include a significant retail product component. Retail packaging differs significantly from that for food service due to the fact that most retailers (particularly local retailers) are not affiliated with large traditional airport operators. As a result, retail locations are not as conducive to grouping in multiple unit packages. Rather, all of the packages in the retail category are three units or fewer in order to attract brand name and local retailers. (Exhibit C)

Packaging Criteria

The overall strategy with the plan is to create a program with a sustainable schedule of renewal moving into the future. Ideally, the program would experience renewal of approximately 10-15 units per year along with additional growth to meet demand. New lease term lengths will vary by type of operation and investment requirement, in negotiation with each tenant, typically between 5-10 years.

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For the work of packaging units appropriately airport-wide, staff has endeavored to apply a number of criteria in considering each current and planned location, including future units in the new North Satellite. Many of the criteria listed below constitute best practices in airport dining and retail programs, while others are the result specific Aviation Division and Commission goals for the program. Criteria include:

Total package sales potential

Locations that have performed well in the past, or are estimated to be strong locations based on anticipated passenger volumes are packaged with units that have an anticipated lower sales potential. In multiple unit packages, high volume locations are expected to offset lower volume locations. Packages are estimated to achieve overall profitability.

Balance large operators and small business participation

Large national/international operators will propose on large packages with investment requirements out of reach of small and minority-owned businesses. Large businesses also will propose on small packages and individual units in an effort to increase the scale of their operation. The small packages and individual units cannot be 'set aside' for competition for small business and/or minority-owned business only. Small packages offered must be numerous enough to achieve 40% small, local and/or minority-owned business participation as desired by the Commission, anticipating that some large operators will win small packages.

Balance of geographic locations

This criterion is closely tied to sales potential for a package, but with the related objective of providing a mitigation of risk for operators by placing locations throughout the terminal. For small operators, it is desirable to place 2-3 locations in different parts of the Airport to mitigate the risk of carrier-related changes (e.g. mergers, bankruptcies, etc.). Lease agreements will continue to contain provisions for truly exceptional circumstances.

Investment Requirements

This criterion is related to the mix of small and larger operators. Large packages with large investment requirements eliminate competition from smaller operators. Packages intended to be within reach of small businesses should have an overall investment requirement less than \$3 million, and preferably with a phased schedule of investment (see below).

Phasing of Build-Outs

With particular consideration of smaller operators, packages are designed to avoid multiple simultaneous build-outs and commitment of capital resources without the cash flow from an operation. Units in packages should come online in somewhat staggered succession. Lease commencement and/or termination dates, or possibly rent structures will be adjusted to accommodate in each instance by negotiation with the tenant. Phasing of build-outs also helps mitigate disruption of customer service in the terminal and avoids overheating of the market for architects and builders which drives up costs for business.

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Optimal Mix

In some instances, a specific type of concept is desired for a location in order to achieve the optimal mix of offerings to meet passenger demand. As a result, a unit may be offered as a single unit opportunity in order to increase the likelihood that the desired type of concept will compete for the opportunity. This is particularly true for retail concepts where alliances with primes are less common.

Next Steps

The immediate next steps are to share the preliminary packaging plan with current Airport tenants. Current tenants and other stakeholders are expected and encouraged to provide input and insights from a business person's perspective to this plan. Staff also will prepare to launch the first outreach efforts with an open approach to refining the efforts as the leasing effort continues. Port staff in ADR and OSR will work with the public involvement firm to produce outreach materials, engage in one-on-one community outreach, plan advertising and develop the "Doing Business at Sea-Tac" video and other leasing materials. The leasing website will be prepared for the inclusion of the specific information about the opportunities which would "go live" in advance of the first outreach event. The first leasing opportunities in 2015 will be for retail/personal services and specialty retail. The first food service package would be released in the third quarter of 2015.

Concurrently, staff continues to work to realize the Commission's policy guidance in its November 25, 2014 motion regarding quality jobs, employment and service continuity. Staff has created an initial scope of work for a third-party vendor to manage an employment continuity pool during the transition, and the process of procurement has been initiated. New draft solicitation documents for use in future Request for Proposal (RFP) and Competitive Evaluation Processes are currently undergoing Legal review.

ATTACHMENTS TO THIS BRIEFING

- Exhibit A: Commission Meeting Minutes, April 2003
- Exhibit B: DRAFT Event and Outreach Overview
- Exhibit C: Food Service Packaging Plan
- Exhibit D: Retail/Service Packaging Plan
- Exhibit E: PowerPoint Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 9, 2014 – Phasing Proposal for Airport Management Services LLC (Hudson Group) Retail Locations
- December 9, 2014 – Phasing Proposal for HMSHost Leased Food Service Locations
- December 9, 2014 – Amendment to Lease and Concession Agreement for Anton Airfoods dba Anthony's Restaurant

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- November 25, 2014 – Commission Motion regarding quality jobs, employment and service continuity
- September 30, 2014 – (Staff Briefing) Drivers for Phasing Decisions.
- May 27, 2014 – Briefing about Airport Dining and Retail Master Plan
- September 11, 2012 – (Briefing) Airport Concessions Master Plan Update
- March 27, 2012 – Briefing about Interim Concessions Leasing
- February 14, 2012 – Commission Motion for the Airport Concessions Program
- December 13, 2011 – Program Principles and Practices (Stakeholder Process) briefing