

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4d
Date of Meeting November 24, 2015

DATE: November 5, 2015
TO: Ted Fick, Chief Executive Officer
FROM: James Schone, Director, Aviation Business Development
SUBJECT: Authorization of Revision to HMS Host lease

ACTION REQUESTED

Request Commission to revise its December 9, 2014, authorization for the Chief Executive Officer to execute a lease and concession agreement with HMS Host (Host) to remove one food service location from their lease and reduce their Minimum Annual Guarantee by \$77,000.

SYNOPSIS

On December 9, 2014, the Commission authorized a new lease and concession agreement with Host to operate ten food service locations at Seattle-Tacoma International Airport (Airport). This lease is a component of Lease Group #1, the first set of leases authorized by the Commission as part of the phasing plan for redevelopment of the Airport Dining and Retail (ADR) Program. For a variety of reasons, the lease has not been executed.

This revision to the original authorization includes the removal of one food service location, the Starbucks Evenings in the Arrivals Hall, from the lease and a corresponding reduction in the Minimum Annual Guarantee of \$77,000. Due to a significant decrease in passenger flow expected through the Arrivals Hall as a result of a decision by Port staff last month to relocate cruise ship busses and other ground transportation activities from the South Ground Transportation Lot in 2016, Port and Host staff agreed that it was in the best interests of both parties to remove this unit from their lease.

BACKGROUND

In preparation for the expiration of leases for 90% of the ADR units within a two-year period (2015-2017), Port staff began work on an ADR Master Plan in 2012. The purpose of this initiative was to plan the future dining and retail offerings for the Airport's terminal buildings in light of facility changes, changes in passenger needs/desires as well as the expected increase in passengers travelling through the Airport. An important objective of this master plan was the development of the appropriate steps (the phasing plan) needed to redevelop nearly 100 dining and retail locations while maintaining service during the infrastructure and tenant unit construction as well as to create a more sustainable cycle of lease expirations in the future.

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The first group of leases (Lease Group #1) within this phasing plan were presented to and authorized by Commission on December 9, 2014. Within this group, the Commission authorized a new lease and concession agreement with Host for ten food service locations. However, the lease has yet to be executed. There are a number of reasons for this delay. First, insufficient staff resources were available to handle all the issues associated with the various ADR leases approved as part of Lease Group #1. Then, the Washington State Supreme Court ruled on August 20, 2015 in the case of Filo Foods LLC et al vs the City of SeaTac that the City of SeaTac's ordinance regarding minimum wages and employment standards (Chapter 7.45 in the City of SeaTac Municipal Code) extends to transportation and hospitality workers at Seattle-Tacoma International Airport. This decision led to further delay as both Host and Port staff worked in good faith to determine what changes, if any, needed to be made to the lease to account for the impacts of the court's decision.

Last month, Port staff made a decision to relocate cruise ship busses and other ground transportation vehicles from the South Ground Transportation Lot in preparation for construction of the new International Arrivals Facility. This decision will have a significant negative impact on the passenger traffic in the Arrivals Halls as early as 2016. Given this change, both parties agreed that it was best to remove the food service location planned for the Arrivals Hall from the lease. Port staff has not yet had an opportunity to study the passenger traffic patterns in the Arrivals Hall following the change in ground transportation activities. Their intention is to reposition this food service unit within a future lease group associated with the ADR program redevelopment. Associated with the removal of this unit from Host's lease is a reduction in the Minimum Annual Guarantee of \$77,000.

FINANCIAL IMPLICATIONS

Approval of this lease amendment is key to the Port realizing the \$27.3 million of revenue that was projected over the term of the lease in the original request for authorization less the estimated \$1.5 million in revenue associated with the Arrivals Hall Starbucks unit. However, Port staff expects to recoup some of this revenue once that location is leased as part of a future lease group.

STRATEGIES AND OBJECTIVES

The lease and concession agreement with Host, as a key foundation of the phasing plan for the redevelopment of the Airport Dining and Retail Program, supports the Port's Century Agenda goal to "advance the region as a leading tourism destination and business gateway" by providing an extraordinary customer experience at the Airport. The lease also supports the Aviation Division's strategic goals to operate a world-class airport and grow non-aeronautical revenues.

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TRIPLE BOTTOM LINE

The Airport Dining and Retail staff places a high value on the concurrent pursuit of positive economic, community, customer service and environmental stewardship outcomes in its leasing efforts. The lease and proposed amendment with Host is consistent with these values.

Economic Development

Host intends to invest approximately \$6 million in the 9 units associated with this lease amendment. The operation of these units supports approximately 240 full-time jobs. The units are projected to generate over \$25 million in revenue to the Port over the life of the lease.

Environmental Responsibility

The food service units associated with this lease amendment will be built in compliance with all Port standards for environmental sustainability.

Community Benefits

The 9 food service units associated with this lease amendment supports the continuity of approximately 240 employees with Host. The employees are represented by the Hotel Employees Restaurant Employees union (UniteHERE!) Local 8.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not revise the previous authorization.

- **Pros:** This could lead to earlier redevelopment of a revenue producing unit than would otherwise be the case if Host agreed to sign the lease with this unit still included.
- **Cons:** By not removing the Arrivals Hall Starbucks unit from the previous authorization, Host might refuse to sign the lease. This would then eliminate or at least delay the early return of 6 units that are to be used for other parts of the ADR Program redevelopment. This is not the recommended alternative.

Alternative 2) – Revise the previous authorization as proposed.

- **Pros:** This allows Host to proceed with their investment in the 9 units associated with the lease. It will also allow for the early return of 6 units from Host to the Port that will be included in other lease groups.
- **Cons:** This will delay leasing and construction of a revenue producing unit in this area of the Airport. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 9, 2014 - Authorization of Prime Lease Modifications – HMS Host/Seattle Restaurant Associates