



**COMMISSION
AGENDA MEMORANDUM**

Item No. 4f

ACTION ITEM

Date of Meeting September 26, 2017

DATE: September 18, 2017

TO: Dave Soike, Interim Executive Director

FROM: Wayne Grotheer, Director, Aviation Project Management Group
James Schone, Director, Aviation Commercial Management
Dawn Hunter, Sr. Manager, Airport Dining and Retail

SUBJECT: Airport Dining and Retail (ADR) Kiosk Program Expansion (CIP #C800846)

Amount of this request: \$1,190,000

Total estimated project cost: \$1,240,000

ACTION REQUESTED

Request a single Commission authorization for the Executive Director to: (1) proceed with design of the Airport Dining and Retail Kiosk Program Expansion project at Seattle-Tacoma International Airport; (2) utilize existing or future Job Order Contracts, procured separately, to construct the project and (3) use Port crews to perform work related to the construction of the kiosk spaces as needed. The total estimated project cost is \$1,240,000.

EXECUTIVE SUMMARY

The Airport Dining and Retail (ADR) Kiosk Program provides opportunities for small, local, and disadvantaged businesses to gain experience doing business at the Seattle-Tacoma International Airport (Airport). The program currently provides a tiered approach to its offerings with three Introductory Kiosk units and three Intermediate Kiosk spaces as stepping stones to competing for a full-scale retail location.

The Introductory Kiosk unit requires no capital investment from the tenants. The space, casework, and storage are provided and maintained by the Port. Lease terms vary from six to eighteen months.

The Intermediate Kiosk requires the tenant to provide the design, casework, maintenance and storage for their space, in return for a larger space and a longer lease term (typically three to four years). These requirements help prepare the tenants for the competition for full-scale retail locations.

This project includes the development of infrastructure for eight (8) Intermediate Kiosk spaces and an allowance to convert two (2) of these kiosk spaces into full Introductory Kiosk units as

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an option as the designs are finalized. The project budget includes \$500,000 to upgrade two Intermediate Kiosk spaces to Introductory Kiosk units. That amount represents both construction hard costs and project soft costs.

Staff is requesting authorization for both Design and Construction. Due to the size and scope of this project, staff feels that there is a low risk that additional funds will be required after design efforts are complete. Getting authorization for Design and Construction in one authorization will save the project time and allow for the new kiosk locations to be opened sooner.

JUSTIFICATION

The primary purpose of this project is to increase small, local, and/or disadvantaged business opportunities in the ADR Program in support of the Century Agenda goal to promote small business growth and workforce development and specifically, Commission's goal to achieve 40% of ADR gross sales from these types of businesses. This project will also expand retail offerings at the airport to meet growing passenger demand. These offerings will provide passengers with local, unique, and new products not currently available. This will also help to increase non-aeronautical revenue, a key source of funding for airport infrastructure projects.

The Kiosk Program started in early 2014 with 3 locations constructed by the Port at the entrance to Concourse C. The purpose of this program was to create short-term business opportunities (6-18 months) for small, local, and/or disadvantaged businesses to obtain experience in the airport retail environment without significant investment or a long-term commitment. Port funds were used to provide the utility infrastructure and kiosk casework, thus minimizing the barriers to entry. During the past 3 and one-half years, a total of 8 firms (including the current tenants) have had leases in these locations.

Several participants in the kiosk program indicated a desire to remain beyond the initial lease term but were not ready to propose for a full-scale retail location or there weren't suitable full-scale leasing opportunities available for which to submit a proposal at the end of their kiosk lease. In response to this need, ADR staff developed the Intermediate Kiosk Program in 2016. This program is intended to provide an "intermediate step" for companies that successfully complete a term in what is now referred to as the Introductory Kiosk Program (the 3 locations on Concourse C constructed by the Port).

The Introductory Kiosk tenants who are interested in the Intermediate Kiosk Program are required to compete for these spaces (to the extent that there are multiple firms interested in the available opportunities) through a modified Competitive Evaluation Process (CEP). The CEP award is based on minimum qualifications, concept, product offered, design creativity and financials. The selected firms must make a small capital investment (approximately \$100/sq. ft. or \$25k to \$30k total) by designing and building out a 250-300 square foot location. For this investment, the tenants receive a longer lease term (3-4 years). Through this process, the tenants gain more experience in unit design and construction, acquiring and repaying capital, creating proposals and understanding the competitive process. The Intermediate Kiosk Program

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now has 3 spaces on Concourse A (2 of which are currently filled and the other location is leased but not yet built out).

This proposal to increase the number of spaces in the Intermediate Kiosk Program by 8 is based on the desire to increase the number of opportunities for small, local, disadvantaged businesses. These locations have been chosen based on where there is adequate space and high visibility with the travelling public to ensure the greatest chance of success. Upon completion, there will be a total of 11 Intermediate Kiosk locations and 3 Introductory Kiosk units. This ratio of nearly 4:1 (Intermediate to Introductory Kiosks) has been selected based on the need to have a sufficient number of Intermediate Kiosk spaces for successful participants in the Introductory Kiosk Program which have significantly shorter lease terms (6 to 18 months) compared to those in the Intermediate Kiosk Program (3 to 4 years). However, staff is requesting an allowance to convert two of the proposed eight Intermediate Kiosk spaces to Introductory Kiosk units in order to have the flexibility to respond if there is a significant increase in demand for Introductory Kiosks.

Scope of Work

The eight (8) Intermediate Kiosk spaces include the following:

1. Dedicated electrical power circuit
2. Lighting or lighting circuit as needed
3. Dedicated communications network connectivity
4. Miscellaneous finishes as needed

The optional (2) Introductory Kiosk units include the following:

1. Dedicated electrical power circuit
2. Dedicated communications network connectivity
3. Lighting as needed
4. Casework
5. Finishes

For both Intermediate and Introductory Kiosks, the Port will relocate signage, access control devices, and other miscellaneous obstructions as needed to create a clear, usable space. Additional work may be required in order to ensure that each kiosk location is adequately prepared and does not require the incoming tenants to make an investment that exceeds the intent of the program. These spaces, as part of the Airport's sustainability program, will seek to use practices that conserve energy, use environmentally preferable materials, and provide infrastructure to support waste minimization.

Within both the Introductory and Intermediate Kiosks, the leveraging of the Job Order Contract (JOC) would provide additional small business participation within the construction phases.

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Schedule

Activity

Design start	2017 Quarter 4
Construction start	2018 Quarter 2
In-use date	2018 Quarters 3 and 4

Cost Breakdown

	This Request	Total Project
Design	\$382,000	\$382,000
Construction	\$858,000	\$858,000
Total	\$1,240,000	\$1,240,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 –Do not add new kiosk opportunities

Cost Implications: \$0

Pros:

- (1) No capital investment required from the Port.
- (2) Allows space to be allocated for other needs.
- (3) No risk of the capital investment being impacted by airport development.

Cons:

- (1) Limits growth opportunities for tenants currently participating in the Introductory Kiosk Program. The three existing Intermediate Kiosks are currently tenanted. Current and new Introductory Kiosk tenants will not have growth opportunities.
- (2) Does not support attainment of the goals set forth by the Port Commission.

This is not the recommended alternative.

Alternative 2 – Port constructs the infrastructure and casework for (8) new Introductory Kiosk units

Cost Implications: \$3,609,000

Pros:

- (1) Provides more small business opportunities with limited tenant investment.

Cons:

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- (1) Port incurs the full cost of the necessary Tenant Improvements.
- (2) Port must budget for ongoing kiosk maintenance at all (8) locations.
- (3) Does not provide a progressive opportunity for tenants who successfully operate Introductory Kiosks.
- (4) Greater loss of Port’s capital investment if kiosks are displaced by airport development.

This is not the recommended alternative.

Alternative 3 – Port constructs utility improvements and minor space improvements for (8) Intermediate Kiosk locations with an option to convert (2) spaces to Introductory Kiosk units

Cost Implications: \$1,240,000

Pros:

- (1) Will provide small business opportunities within the airport environment without requiring the tenant to make the large capital investment costs of an in-line space.
- (2) Allows businesses with a shorter-term lease in the Introductory Kiosk program to participate in a graduated process requiring increasing investment and knowledge.
- (3) Achieves the small business goals set forth by the Port Commission.

Cons:

- (1) Does not provide additional Introductory Kiosk opportunities.
- (2) The tenant is required to make a larger capital investment with the Intermediate Kiosk space than with the Introductory Kiosk unit.
- (3) Greater loss of Port capital investment if kiosks are displaced by airport growth and development.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$3,319,000	\$0	\$3,319,000
Estimate Adjustment	\$(1,899,000)		\$(1,899,000)
Revised Estimate	\$1,240,000		\$1,240,000
AUTHORIZATION			
Previous authorizations	\$50,000	\$0	\$50,000
Current request for authorization	\$1,190,000	\$0	\$1,190,000

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Total authorizations, including this request	\$1,240,000	\$0	\$1,240,000
Remaining amount to be authorized	\$0	\$0	\$0

Annual Budget Status and Source of Funds

This project (CIP #C800846) was included in the 2017-2021 capital budget and plan of finance with a budget of \$3,139,000. The budget decrease was transferred to the Non-Aeronautical Allowance (C800405). The funding source will be the Airport Development Fund.

Financial Analysis and Summary

Project cost for analysis	\$1,240,000
Business Unit (BU)	Airport Dining and Retail
Effect on business performance (NOI after depreciation)	NOI after depreciation will decrease
IRR/NPV (if relevant)	19.4%/ \$2,664,356
CPE Impact	N/A

Future Revenues and Expenses (Total cost of ownership)

Revenues were calculated based on an average gross sales and rent to the Port on a per location basis over the ten (10) year life of the project. Anticipated average annual gross sales from these 8 Intermediate Kiosks are projected to be \$5,400,000 or \$54,000,000 over the ten (10) periods. Anticipated average annual rent to the Port is \$540,000 or \$5,400,000 over the ten (10) year period.

Ongoing maintenance costs can be held to a minimum if kiosks are standardized and input from Aviation Maintenance is included relative to the accessibility, quality, and integrity of the units.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None