



**COMMISSION
AGENDA MEMORANDUM**

Item No. 7b

BRIEFING ITEM

Date of Meeting January 24, 2017

DATE: January 3, 2017

TO: Ted Fick, Chief Executive Officer

FROM: James Schone, Director, Aviation Business Development
Scott Van Horn, Senior Business Manager, Airport Dining and Retail

SUBJECT: Briefing on Lessons Learned from Airport Dining and Retail Lease Group 3 and proposed Lease Group 4

EXECUTIVE SUMMARY

The redevelopment of the Airport Dining and Retail (ADR) Program offers an excellent opportunity to advance the Port's Century Agenda goals by enhancing the Airport's profile as the preferred gateway to the Pacific Northwest, by promoting job growth, by creating new opportunities for small, local and disadvantaged businesses, and by meeting the expectations of the travelling public for quality food service, retail products, and personal services. Significant progress has been made towards the goals set by the Commission for this redevelopment including expanded outreach, the creation of an Employment Continuity Pool and increased participation by small, local and disadvantaged businesses.

Competition for the most recent set of leasing opportunities in the redevelopment of the ADR Program, Lease Group 3 (LG 3), was much higher than for Lease Group 2 (LG 2). Small, local, and disadvantaged businesses were well represented in various forms of participation in the LG 3 proposals. Key lessons from LG 3 are the continuing importance of outreach, that the work with key stakeholders following LG 2 led to better information about job quality being included in LG 3 proposals, and improved scoring for joint ventures involving small business partners.

This proposed set of leasing opportunities, referred to as Lease Group 4 (LG 4), is the next step in the implementation of the Airport Dining and Retail Master Plan. It contains a total of 21 units, of which nine are in large packages (four or more units) that will be competed via requests for proposal (RFP) and 12 units in small packages or offered as individual units that will be competed via the Competitive Evaluation Process (CEP). The need to request Commission consideration now is based on several reasons: units where leases have expired and are in holdover or will be expiring close to the date when firms selected for these opportunities will be ready to start construction as well as the need to have tenants for new locations in new facilities.

The proposed 11 new opportunities encompassing 21 units in LG 4 are listed below:

Meeting Date: January 24, 2017

- 1) Food & Beverage CEP F-1: a Fast Casual Restaurant with an Asian or Mexican concept in the North Satellite (NS-3);
- 2) Food & Beverage CEP F-2: a Gourmet Coffee unit in the North Satellite (NS-1);
- 3) Food & Beverage CEP F-3: a Wine and Beer Bar in the Central Terminal (CT-18);
- 4) Food & Beverage CEP F-4: two units including a Quick Service Restaurant with a Deli on Concourse C (CC-10); and a Deli on the North Esplanade (NE-4);
- 5) Food & Beverage CEP F-5: three units including a Gourmet Coffee unit in the new Concourse D Hardstand Terminal (HS-1); a Gourmet Market with Bar in the North Esplanade (NE-3); and a Casual Dining Restaurant focused on Healthy Food or an Open Concept on the B Concourse (CB-3A);
- 6) Food & Beverage RFP F-6: four units including a Bar with Food on Concourse A (CA-13); a Gourmet Coffee unit in Baggage Claim (BC-2); a Casual Dining Restaurant – Open Concept on Concourse C (CC-11); and a Quick Service Restaurant with a BBQ or Chicken Concept on Concourse D (CD-1);
- 7) Retail CEP R-1: a Local-themed Retail Concept in the Central Terminal (CT-8);
- 8) Retail CEP R-2: an Open Retail Concept on Concourse B (CB-3B);
- 9) Retail CEP R-3: a Lifestyle or Adventure-wear Apparel Concept in the Central Terminal (CT-9);
- 10) Retail CEP R-4: a Lifestyle or Adventure-wear Apparel Concept in the Central Terminal (CT-16);
- 11) Retail RFP R-5: five units including an Open Concept on B Concourse (CB-1); an Open Concept on C Concourse (CC-4); a Jewelry/Accessories Concept on C Concourse (CC-9); a News Stand with Coffee in the new Concourse D Hardstand Terminal (HS-2); and Jewelry/Accessories Concept in the Central Terminal (CT-25).

Note: See exhibits in the corresponding PowerPoint presentation for location of all units.

BACKGROUND

Commission Guidance and Goals for the ADR Program Redevelopment

The Commission provided specific guidance and goals for the redevelopment of the ADR Program in motions that they approved on February 14, 2012 and November 25, 2014:

Guidance for the ADR Program Redevelopment

- Encourage broad business participation;
- Use flexible competitive leasing processes to accommodate all types of business;
- Create new opportunities for small, disadvantaged and local businesses;
- Maximize employment continuity for qualified employees;
- Continue ‘street pricing’ of products and services;
- Improve efficiency and affordability in the unit build out process;
- Establish job quality expectations in competitive processes;
- Strengthen the Pacific Northwest sense of place.

Meeting Date: January 24, 2017

Goals for the ADR program to be achieved by 2025:

- Grow sales per enplanement by at least 40 percent;
- Reach and remain within the top 10 North American airports as ranked by sales per enplanement;
- Grow gross revenues to the Port by 50 percent;
- Grow employment by 40 percent;
- Grow the share of sales generated by small, disadvantaged, and/or local businesses to 40 percent;
- Create an aspirational objective of increasing ACDBE gross sales to 25 percent of total sales.

ADR Program Performance Metrics

The Commission motion on November 25, 2014 requested regular reports to the Commission regarding the performance of the ADR Program relative to the goals that they set for the program. The table below provides this information for Q3 2016 compared to the same time period in 2015. Complete data for 2016 will be available in February 2017.

Airport Dining and Retail Program Performance Metrics

	2016 Q3	% Change from Q3 2015
ADR Total Program Gross Sales	\$229.1 million	11.6%
ACDBE Gross Sales*	\$48.2 million	5.5%
% of Total ADR Program Gross Sales	21.1%	
Small Business Gross Sales**	\$55.2 million	8.6%
% of total ADR Program Gross Sales	24.1%	
Local Business Gross Sales***	\$57.7 million	19.5%
% of Total ADR Program Gross Sales	25.2%	
Total Gross Sales from Small, Local and Disadvantaged Businesses	\$102.1 million	14.3%
% of Total ADR Program Gross Sales	44.6%	
Sales per Enplanement	\$11.86	4.7%
SPE Rank in U.S. Airports per Airport Revenue News	2016 rank not yet available	
Employment (full-time/part-time) as of 12/31/2016	1,596/401	16%/57%
ADR Revenue to POS	\$38.5 million	11.9%

* Definition of Airport Concessions Disadvantaged Enterprise (ACDBE) is that described in 49 Code of Federal Regulations, Part 23.

** Definition of small business is based on standards used by U.S. Small Business Administration (SBA).

*** Definition of local business as developed by Port staff is: the brand of the business must be easily recognized by the travelling public as from Washington State; and the business must either be headquartered in Washington State, or have the majority of its sales in Washington State. The unit at the airport may be operated by that same business or by a third party.

Meeting Date: January 24, 2017

Outreach Efforts

Following the intensive outreach efforts of 2015, ADR staff continued the effort to engage interested businesses wherever possible in 2016 (see prior Commission memos). As a result of these efforts, there were 625 firms registered on the ADR leasing website as of December 31, 2016. This is an increase of 179 firms (a 40 percent increase) compared to December, 2015.

On January 13, 2017, the Port (through the collaborative efforts of Public Affairs, Workforce Development, Small Business and ADR staff) hosted an outreach event: “The Sea-Tac Airport Concessions Opportunity Summit”. The purpose of this event was to increase awareness of the opportunities available in the ADR Program for small, local and minority businesses, to create an understanding regarding the benefits and challenges of participating in the ADR Program and to build awareness of the resources available to assist them. The response from the 168 participants was overwhelmingly positive.

Employment Continuity Pool (ECP)

The Commission motion on November 25, 2014 directed ADR staff to create and hire a third-party contractor to manage an Employment Continuity Pool (ECP) focused on the needs of employees and employers throughout the redevelopment of the ADR program. Commission recognized that the redevelopment would cause disruptions for employees and acknowledged the value of workforce stability during the redevelopment. The ECP is a database of all non-management, non-supervisory, and non-confidential employees who will lose or have lost their jobs due to their employer leaving the ADR Program but wish to continue working in the ADR Program with another employer. The objective of the ECP is to make employment transitions more secure and smooth for both employers and employees.

In July 2016, the Port contracted with Airport Jobs, following a competitive procurement process, to manage the ECP. The role of Airport Jobs is to work collaboratively with the ADR staff and existing tenants who are leaving the program and who will need to inform employees of the ECP resource. Incoming employers will have this resource available to them for hiring staff for their units. Airport Jobs will create an employee database, assist in evaluating needs and matching qualified employees, facilitate interviews and track outcomes.

ADR and Airport Jobs staff have conducted the first intake meetings with tenants affected by LG 2 outcomes. Successful meetings occurred in November and December 2016 with the management teams of Ken’s Baggage, Great American Bagel Bakery, Butter London and HMS Host. Initial intake paperwork was provided to employers to give to employees who wish to participate in the ECP program. Airport Jobs is currently in the process of collecting these documents and will be hosting upcoming meetings with employees interested in the ECP.

Lease Group 3 Update

Following Commission authorization of LG 3 on June 14, 2016, proposals for 9 opportunities were received on September 22, 2016, and are currently being evaluated. The evaluation process is expected to be completed by the end of January 2017. There were 45 proposals

Meeting Date: January 24, 2017

submitted for these nine opportunities. Of these 45, 18 (40 percent) were from locally-owned businesses, 21 (47 percent) from small businesses and 14 (31 percent) from ACDBE firms.

Regarding the other three opportunities in LG 3, two were suspended due to the construction overbid situations with the Central Terminal (CT) Elevators and Heating Ventilation and Air Conditioning (HVAC) system projects. A decision as to when to restart the bidding process for these locations will be made once the schedule for the rebidding of the CT elevators and HVAC system projects is known. The bid submittal date for the other opportunity was delayed until November 18, 2016 due to the need to include additional units on the South Satellite in the Large Food Package #4 that was approved by Commission on August 23, 2016.

Key lessons from the LG 3 process so far are:

- 1) The ongoing outreach efforts played a role in the increased competition for these opportunities, in particular, increased participation from small, local and disadvantaged businesses;
- 2) Significant progress was made in receiving better information about the quality of jobs being offered by each of the firms that submitted a proposal;
- 3) The scoring of joint ventures involving small business was improved, but there is more work to be done with this;
- 4) The external stakeholders who participated (two airline representatives and one labor representative) provided valuable input to the evaluation teams comprised of Port staff.
- 5) Proposers are sourcing more from local and small companies;
- 6) During the LG 2 proposal evaluation process, a community member serving as a non-voting observer recommended that the Port provide a briefing to those firms not selected as Preferred Respondents regarding the strengths and weaknesses of their proposals. The purpose of these briefings would be to help respondents learn and improve from the investment they made in developing their proposals. ADR staff offered this briefing opportunity to all firms who submitted proposals for LG 2 but were not selected as Preferred Respondents. Out of seven offers made, six firms requested a briefing. These briefings were held in July of 2016. The response from the firms who participated in these briefings was very positive.

Lease Group 4

This set of leasing opportunities, referred to as Lease Group 4 (LG 4), is the next step in the implementation of the ADR Master Plan. It contains a total of 21 units, of which nine are in large packages (four or more units) which will be competed via Request for Proposal (RFP) and 12 units in small packages or offered as individual units which will be competed via the Competitive Evaluation Process.

The need to request Commission consideration now of LG 4 is based on several reasons. Seven locations involve Host or Hudson-operated units that were to be given back to the Port earlier than their original lease termination dates (December 31, 2016 and April 30, 2017 respectively) as part of the negotiations for their new leases. These give-backs have been delayed due to a

Meeting Date: January 24, 2017

variety of issues associated with the ADR Program redevelopment. Two units are new locations in the new Concourse D Hardstand Terminal that need to be ready when that facility opens. Two units are locations in the North Satellite and need to be ready when that facility opens. The remaining locations are included due to units where leases are in hold-over or will be expiring close to the date when those firms selected for these opportunities would be ready to start construction on their units.

The balance between the numbers of units to be competed via RFP versus CEP has been carefully considered in light of Commission goals to increase the percentage of gross sales generated by small, local and disadvantaged businesses to 40 percent and concerns expressed by labor groups about losing too many represented jobs through the redevelopment effort.

As of the end of Q3 2016, 64 percent of ADR gross sales were generated by prime operators (those operating four or more units). An analysis of ADR sales by prime versus non-prime operators in 2021 (once the build-out of the ADR program is completed) shows that the percentage of ADR gross sales coming from prime operators will vary between 57 percent and 71 percent depending on how many prime operators bid on packages of three or fewer units. The Port will have the opportunity to adjust future lease groups (LG 5 and LG 6) based on the results of LG 3 and LG 4 in order to accomplish the Commission's goal of 40 percent of ADR gross sales coming from small, local and disadvantaged businesses. It is important to note that several of the units involved in LG 4 are currently operated by small, local or disadvantaged firms including: Sub Pop, Coffee Bean and Tea Leaf, Diva Coffee House and Planewear.

LEASE GROUP 4 OPPORTUNITY DESCRIPTIONS

Food & Beverage CEP F-1

- NS-3: a fast casual restaurant serving Asian or Mexican food. This approximate 1,400 square foot space in the North Satellite is a new location to supplement the limited food service program in this gate area. This unit is in Phase One of the North Satellite (new construction) and scheduled to open in 1st Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit A**.

Food & Beverage CEP F-2

- NS-1: a gourmet coffee unit of approximately 1,300 square foot in Phase One of the North Satellite (new construction). This is a new space in the North Satellite and scheduled to open in 1st Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit B**.

Food & Beverage CEP F-3

- CT-18: a wine and beer bar. This is an approximately 1,600 square foot space located in the Central Terminal. This unit is operated as Vino Volo under a lease that expired on

Meeting Date: January 24, 2017

April 30, 2016 and is currently operating on a month-to-month holdover. This unit has a targeted opening date in 2nd Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit C**.

Food & Beverage CEP F-4

This two-unit package includes a total of approximately 1450 square feet of space as follows:

- CC-10: a quick service restaurant. This is approximately 850 square foot space located on Concourse C. This unit is operated as Wolfgang Puck by Seattle Restaurant Associates under a lease that expired on December 31, 2016 and is currently on a month-to-month holdover. This unit has a targeted opening date in 1st Quarter 2019.
- NE-4: a deli restaurant. This is approximately 600 square foot space located on the North Esplanade. This unit is currently operated as Hudson News under a lease expiring on April 30, 2017. This unit is scheduled to open in 1st Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit D**.

Food & Beverage CEP F-5

This three-unit package includes a total of approximately 3,550 square feet of space as follows:

- HS-1: a gourmet coffee unit. This is an approximately 550 square foot space located in the new space in the new Concourse D Hardstand Terminal. This unit is scheduled to open in 3rd Quarter 2018.
- NE-3: a gourmet market with a bar. This is an approximately 1,500 square foot space located on the North Esplanade. This unit is operated as Vintage Washington by Seattle Restaurant Associates (SRA) under a lease that expired on December 31, 2016 and is currently on a month-to-month holdover. This unit has a targeted opening date in 1st Quarter 2019.
- CB-3A: a healthy or open concept. This is an approximately 1,500 square foot space located on Concourse B. This unit is operated as Sbarro by Host under a lease that expired on December 31, 2016 and is currently on a month-to-month holdover. This unit has a target opening date of 1st Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit E**.

Food & Beverage RFP F-6

This four-unit large package includes a total of approximately 6,000 square feet of space as follows:

- CA-13: a bar with food. This is an approximately 1,500 square foot space located at Concourse A. This unit is currently operated as Coffee Bean & Tea Leaf by Concourse Concessions under a lease expiring on December 31, 2018. This unit has a target opening date of 3rd Quarter 2019.

Meeting Date: January 24, 2017

- BC-2: a gourmet coffee unit. This is an approximately 500 square foot space located in the Baggage Claim area. This unit is operated as Diva Coffee House under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a target opening date in 3rd Quarter 2019.
- CC-11: a casual dining restaurant. This is an approximately 2,800 square foot space located in Concourse C. This unit consists of a current vacant space and a part of the unit that is operated as a Wolfgang Puck by SRA under a lease that expired on December 31, 2016 and is currently on a month-to-month holdover. This unit has a target opening date in 3rd Quarter 2019.
- CD-1: a quick service restaurant with a chicken or BBQ concept. This is an approximately 1,200 square foot space located at Concourse D. This unit is operated as Sports Page Pub by Host under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a target opening date in 2nd Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit F**.

Retail CEP R-1

- CT-8: a retail store with a local theme. This is an approximately 1,500 square foot space located in the Central Terminal. This unit is operated as Sup Pop under a lease that expired on September 15, 2015 and is currently operating on a month-to-month holdover. This unit has a target opening date in 4th Quarter 2018.

Lease terms and projected schedule are contained in **Exhibit G**.

Retail CEP R-2

- CB-3B: a retail store with an open concept. This is an approximately 1,100 square foot space located on Concourse B. This unit is operated as Sbarro by Host under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a target opening date in 1st Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit H**.

Retail CEP R-3

- CT-9: a retail store with Life Style/Adventure theme. This is an approximately 2,100 square foot space located in the Central Terminal. This unit is operated as ExOfficio under a lease that expired on May 31, 2015 and is currently operating on a month-to-month holdover. This unit has a targeted opening date in 4th Quarter 2018.

Lease terms and projected schedule are contained in **Exhibit I**.

Meeting Date: January 24, 2017

Retail CEP R-4

- CT-16: a retail store with life style/adventure theme. This is an approximately 2,400 square foot space located in the Central Terminal. This unit is operated as Seattle Taproom by SRA under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a targeted opening date in 2nd Quarter 2019.

Lease terms and projected schedule are contained in **Exhibit J**.

Retail RFP R-5

This four-unit large package includes a total of approximately 3,200 square feet of space as follows:

- CB-1: a retail store with open concept. This is an approximately 950 square foot space located on Concourse B. This unit is operated as Planewear under a lease expiring on October 31, 2017. This unit has a target opening date in 4th Quarter 2018.
- CC-4: a retail store with open concept. This is approximately 850 square foot space located on Concourse C. This unit is operated as Wolfgang Puck by SRA under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a targeted opening date in 4th Quarter 2018.
- CC-9: a retail store with jewelry/accessories theme. This is an approximately 450 square foot space located on Concourse C. This unit is operated as Wolfgang Puck by SRA under a lease that expired on December 31, 2016 and is currently operating on a month-to-month holdover. This unit has a target opening date in 4th Quarter 2018.
- HS-2: a news stand with coffee concept. This is approximately 550 square foot space located in the new Concourse D Hardstand Terminal. This unit is scheduled to open in 3rd Quarter 2018.
- CT-25: a retail store with jewelry/accessories theme. This is an approximately 400 square foot space located in the Central Terminal. This unit is operated as Hudson News under a lease expiring on April 30, 2017. This unit has a targeted opening date in 4th Quarter 2018.

Lease terms and projected schedule are contained in **Exhibit K**.

Authorization Approach

The packages with 4 or more units in this lease group will be competed via the Request For Proposal (RFP) process. Packages of 3 or fewer units and individual units will be competed using the Port's Competitive Evaluation Process (CEP). The criteria to be used for evaluating proposals and the points allocated to each criterion are proposed as the same as directed and approved by Commission for LG 2 and LG 3.

The steps to be used for those packages and individual units to be competed via the CEP in LG4 are as follows:

Meeting Date: January 24, 2017

- Authorization by the Commission to solicit proposals;
- Advertising of the opportunities;
- Conducting training sessions for all interested firms;
- Posting of responses to all questions on the ADR leasing website;
- Submission of proposals;
- Evaluation of proposals;
- Selection of the preferred respondents;
- Negotiation with the preferred respondents;
- Signing of leases; and
- Reporting of outcomes to the Commission.

The steps to be used for those packages to be competed via RFP in LG 4 are the same as for the CEP. The primary differences with the RFP are:

- More experience is required to meet the minimum qualifications;
- Proposers must submit a proposal guarantee along with their proposal;
- Documentation must be provided for the proposing organization (Articles of Incorporation, Joint Venture Agreement, etc.); and
- Additional and more detailed information is required in the proposal.

Summary of Evaluation Criteria

The categories of evaluation criteria used to score proposals are proposed to be uniform for every solicitation in LG 4. The total point allowance of 150 points and the point allocation and brief description for each criterion (see below) within the CEP and RFP are proposed as that used for LG 3. The following descriptions of each criterion summarize the areas that will be evaluated (detailed submittal requirements will be included in the RFP and CEP documents).

Company Profile, Experience and Financial Capability 20 points

The company must demonstrate stability, experience and expertise in operating a similar business as proposed, in a challenging environment. The proposer must demonstrate that the company has the financial capacity to fulfill the commitments of an agreement with the Port.

Concept Development 25 points

The proposed concept (or concepts) will be evaluated based on its (their) ability to meet or exceed the expectations described for the unit or units. The airport is a competitive environment for the customer’s spending, therefore the ability to attract business hinges on developing a concept with broad and lasting customer appeal.

Unit Design, Materials and Capital Investment 25 points

The proposal will be evaluated based on the quality of unit design, efficient use of space, selection of appealing and durable materials (including sustainable materials) and its reflection of the Pacific Northwest sense of place, as well as the reasonableness of the proposed capital investment in the unit(s).

Meeting Date: January 24, 2017

Financial Projections and Rent Proposal

20 points

Financial projections and rent proposals will be evaluated based on the reasonableness of the financial projections and the proposed percentage rent fee.

Management, Staff, Operations and Environmental Sustainability:

20 points

The company must demonstrate its commitment to reliable, safe, clean and well-merchandised operations, as well as a proactive and consistent approach to preserving the units (including equipment). The company should detail environmental sustainability measures that it currently practices or will practice in the operation of the business, including (where applicable) separation of waste, recycling and compost, and use of compostable materials.

The company must demonstrate its ability to effectively manage all units and operations, which also includes quality leadership, adequate levels of staffing, robust training for staff and incentives for performance. The company must also demonstrate a commitment to employer philosophies and programs that support a positive work environment and the development of employees.

Job Quality, Workforce Training, Employment and Service Continuity:

20 points

The company must provide information regarding its commitment to employment continuity, provision of quality jobs, sustainable wages, benefits and Paid Time Off. If the company anticipates operating four or more units, it also must describe the company's efforts to have discussions regarding service continuity with labor organizations.

All solicitations will make clear that the Port staff interpretation of the Commission's expectations regarding quality jobs (as articulated in the November 11, 2015 memo from CEO Fick to Commission co-presidents - Attachment A) requires respondents to communicate their commitment to the following:

- For 2017, wages shall be paid at the rate of \$15.35 per hour. The wage rate shall be adjusted on January 1 of each year by the rate of inflation. The increase shall be calculated to the nearest cent using the CPI (Consumer Price Index) for urban wage earners and clerical workers, CPI-W, or a successor index, for 12 months prior to each September 1 as calculated by the US Department of Labor.
- Payment of sick and safe time, which shall be accrued at the rate of one hour for every 40 hours worked.
- Provide health insurance to full-time employees, consistent with the Affordable Care Act.

Small Business Participation:

20 points

The company must indicate whether it is a small business consistent with the requirements of the U.S. Small Business Administration (SBA).

Meeting Date: January 24, 2017

- A company that qualifies as a small business relative to the standards adopted by the SBA will automatically receive ten (10) points.
- All companies, regardless of size, may receive up to ten (10) points, depending on the degree of commitment, for each of the four small business participation opportunities (i.e., sourcing, mentoring, product placement, and design/construction).
- No proposer, though, may earn more than twenty (20) total points for the criterion.

Lease Parameters

Lease term lengths determined by the Port for each opportunity are based upon sales and investment assumptions, and are presumed to allow a future tenant the ability to amortize the investment over the life of the lease. The lease term lengths determined for this group of opportunities also fall within industry standard ranges.

For these new opportunities, the Port will establish the minimum guaranteed rent for the first year of the agreement. The purpose of this is to protect the Port’s financial interest as well as to eliminate the minimum guaranteed rent as a factor in the selection process. This is particularly important for businesses new to the airport that may not have any experience in proposing minimum guaranteed rents. For the second and subsequent years, the tenant will be required to pay either 85% of the previous year’s actual rent payment, or percentage rent based on gross sales achieved during the year, whichever is greater.

Interested businesses will propose percentage rent to the Port. Proposers may propose this either as a flat rent or tiered rent. Each proposer must provide the Port with a pro forma analysis that can substantiate the sales projections, rent offer, costs to operate the business (including goods, labor, debt service, etc.) as well as the anticipated profit margin.

SCHEDULE

The anticipated timeline for each solicitation and award is outlined in each exhibit for the specific opportunity. Upon execution of a lease agreement, the design review and permitting process can be anticipated to take up to six months followed by three to four months for construction before the commencement of business.

Projected Date	Action
January 24, 2017	Brief Commission on lessons learned from LG 3 and proposed units for LG 4
February 14, 2017	Request Commission authorization to solicit proposals for LG 4 opportunities
Late February/Early March, 2017	Advertise opportunities (ADR leasing website and through various local and national media)
March, 2017	Tours and training sessions for interested businesses
March through June, 2017	90 days for proposal preparation
June, 2017	Responses due

Meeting Date: January 24, 2017

August, 2017	Port Evaluation Team completes their decisions
September, 2017	Notification to preferred respondents Update Commission on LG 4 results
October/November, 2017	Lease negotiations and executions

STRATEGIES AND OBJECTIVES

The approval of the proposed group of leasing opportunities supports the 25-year vision of the Port’s Century Agenda to create 100,000 new jobs through economic growth led by the Port. These opportunities also support a number of the strategies and objectives of the Port’s Century Agenda over the next quarter century:

- Advance this region as a leading tourism and business gateway;
- Promote small business growth and workforce development; and
- Be the greenest and most energy efficient port in North America.

The Airport also has a number of shorter term strategic goals:

Strategic Goal:	Achieved Via:
Operate a world-class international airport	Meet the needs of tenants, passengers and the region’s economy
Become one of the top 10 airports in customer service	Recruit quality operators that value staff training and development
Lead environmental innovation, minimize impacts	Lead sustainability programs to minimize waste and conserve water and energy
Reduce airline costs	Provide 50% revenue-sharing with airlines above specific debt service threshold
Maximize non-aeronautical income	Drive an increase in sales per enplanement to maximize growth in revenue
Develop valued community partnerships	Work in tandem with other Port resources, other partner agencies and community entities to foster partnerships

ALTERNATIVES AND IMPLICATIONS CONSIDERED

1. Delay request for Commission approval of LG4 until later in 2017.

Economic Implications: A delay in approving LG 4 by three or more months would have a negative effect on the level of passenger services for the new Phase 1 North Satellite and new Concourse D Hardstand Terminal opening. In addition this would affect the anticipated gross sales for these locations with an estimated loss of \$750,000 in monthly sales (\$9 million when annualized) and \$75,000 (\$900,000 when annualized assuming a 10% concession fee) in revenue to the Port. Furthermore, a delay would also affect the potential sales and revenue to the Port for the other remaining units in this lease group.

Meeting Date: January 24, 2017

Those losses are estimated to be an additional \$125,000 in additional gross sales and \$12,500 in additional revenue to the Port.

Pros:

- This would allow for more time to determine what worked well with LG 3 and what changes, if any, to make to LG 4.

Cons:

- This would mean that Host and Hudson would need to stay in some of their units longer, giving them financial benefits and delaying the creation of new opportunities for other firms. There are also firms with single units whose leases are in holdover. They, too, would need to stay in these units longer, thereby delaying the opportunities for other firms to compete for these spaces.
- There would be no level of services for passengers in the new phase 1 North Satellite and Concourse D Hardstand Terminal.

This is not the recommended alternative.

2. Increase the number of units included in packages that will be competed by Request for Proposal Process:

Economic implications: There is no economic impact.

Pros:

- This would be looked on favorably by our labor partners who prefer more units to be competed in large packages as firms competing for those packages are likely to already have represented workers.

Cons:

- This would mean fewer units available for small, local and disadvantaged businesses to compete for given the higher capital and management resources necessary to build out 4 or more units.

This is not the recommended alternative.

3. Increase the number of units that will be competed via the Competitive Evaluation Process:

Economic Implications: There is no economic impact.

Pros:

- This would increase the number of opportunities available for small, local and disadvantaged businesses.

Cons:

- This would likely lead to our labor partners expressing concerns about too many units going to firms that don't use represented workers.

This is not the recommended alternative.

Meeting Date: January 24, 2017

4. ***Reduce the number of units included in Lease Group 4:***

Economic Implications: This would have similar consequences to Alternative 1, a delay in consideration of LG 4, depending on which units were deleted.

Pros:

- This would reduce the workload demand on the AV Project Management Group, Building Department and Fire Department as compared to a larger LG4 as planned.

Cons:

- This lease group has been carefully developed with considerations for multiple variables including: customer service levels, financial viability of packages, linkages to Host/Hudson/LG2/LG3 projects, as well as increasing ADR capacity to meet increases in passengers as well as installing ADR capacity in new facilities. Reducing the number of units would negatively affect those variables.

This is not the recommended alternative.

5. ***Request Commission authorization for the proposed Lease Group 4:***

Economic Implications: This alternative has the highest financial return to the Port while minimizing the need to keep Host and Hudson in units that they have relinquished as part of their new leases to as short a time as possible as well as minimizing the length of time that firms are in holdover status. It is important to note that we are still refining the implementation schedule of the proposed LG 4 units, in an effort to balance both customer levels of service needs as well as project management workload distribution.

Pros:

- This set of opportunities has been developed to best meet the needs of the ADR program. Considerations have included financial viability, build-out schedule, minimizing location outages and increasing dining and retail capacity to meet the forecasted growth in passengers.

Cons:

- The results of the LG3/Large Food Package #4 proposal evaluation process will not be known until early February, much closer to the first Commission meeting in February when we are planning to request authorization for soliciting proposals for LG 4. Commissioners may request that more time is allowed for them to understand those results as well.

This is the recommended alternative.

ATTACHMENTS TO THIS BRIEFING

- (1) PowerPoint presentation
- (2) Attachment A: November 11, 2015, memo from CEO Fick to Commission co-presidents regarding Quality Job expectations

Meeting Date: January 24, 2017

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 23, 2016 – Commission authorized the Airport Dining and Retail (ADR) Lease Group 3, Large Food Package 3 Addendum
- June 14, 2016 – Commission authorized the solicitation of proposals for the Airport Dining and Retail Lease Group 3 opportunities
- May 24, 2016 – Commission was briefed on the lessons learned from the competitive evaluation process for Airport Dining and Retail Lease Group 2 and the proposed leasing opportunities for Airport Dining and Retail Lease Group 3
- December 8, 2015 – Commission authorized the solicitation of proposals for Airport Dining and Retail Group Lease Group 2
- November 24, 2015 – A request was made of Commission to authorize the solicitation of proposals for Airport Dining and Retail Group Lease Group 2
- August 4, 2015 – A request was made of Commission to authorize the solicitation of proposals for Airport Dining and Retail Group Lease Group 2
- February 24, 2015 – Commission was briefed on the Airport Dining and Retail Program Outreach and Leasing Plans
- December 9, 2014 – Commission authorized Leases and Lease Modifications for HMS Host
- December 9, 2014 – Commission authorized Leases and Lease Modifications for Hudson Group
- December 9, 2014 – Commission authorized an Amendment to the Lease and Concession Agreement with Anton Airfoods (dba Anthony's Restaurant)
- November 25, 2014 – Commission approved a Motion Regarding Job Quality
- September 30, 2014 – Commission was briefed on the Drivers for Airport Dining and Redevelopment Phasing Decisions
- May 27, 2014 – Commission was briefed on the Airport Dining and Retail Master Plan
- September 11, 2012 – Commission was briefed on the Airport Concessions Master Plan
- February 14, 2012 – Commission approved a Motion regarding Concessions Program Guidelines