



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6g

ACTION ITEM

Date of Meeting February 27, 2018

DATE: February 1, 2018
TO: Executive Director Stephen P. Metruck
FROM: James Schone, Director, Aviation Commercial Management
Dawn Hunter, Senior Manager, Airport Dining and Retail
SUBJECT: Airport Dining and Retail (ADR) Lease Group 4 Amendment

Amount of this request: \$NA
Total estimated project cost: \$NA

ACTION REQUESTED

Request Commission authorization for the Executive Director to cancel the authorization for Single Food Unit 1 and Small Food Package 7 as part of the Airport Dining and Retail Lease Group 3 and to amend the authorization to conduct competitive solicitations and execute lease and concession agreements for the Airport Dining and Retail Lease Group 4 by adding an RFP Food - 8 (F-8) and a CEP Food – 9 (F-9).

EXECUTIVE SUMMARY

Two dining opportunities (Single Food Unit 1: CT-1/CT-MZ) and (Small Food Package 7: CT-24/CT-24MZ and NS-2) in Airport Dining and Retail Lease Group 3 (LG 3) were suspended in the Fall of 2016 due to the high bids received on the Central Terminal (CT) Elevator project and the Heating, Ventilation and Air Conditioning (HVAC) System project. These infrastructure projects are necessary for the operation of these dining units in the CT. NS-2 was ultimately removed from Small Food Package 7 and authorized by the Commission for competitive solicitations in Lease Group 4 (LG 4) in order to have that unit ready for the completion of Phase 1 of the North Satellite Project in 2019.

Staff is now ready to move forward with advertising these two opportunities in the CT, and seek authorization to apply LG 4 criteria instead of LG 3 criteria. LG 4 criteria were developed based on lessons learned from the LG 3 proposal solicitation and evaluation process.

Following a successful bid process for the CT Infrastructure Upgrade Project (combined elevator and HVAC) and notice of award of the contract in November 2017, Port staff recommends re-starting the competitive solicitation process for these two leasing opportunities in the CT. The rationale for re-starting the solicitation process now is the need to create additional dining capacity in the main terminal as quickly as possible to improve customer service, create new

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jobs and increase revenue to the Port. Every month of delay in publishing these opportunities beyond March 2018 would result in reduced dining opportunities for travelers in the most-frequented area of the Airport, as well as lost sales per month of nearly \$2.0 million and lost monthly rent to the Port of over \$200k.

JUSTIFICATION

This request for Commission authorization now is based on several reasons:

Customer Service: These units, the two largest dining units in the airport, will provide significant additional dining capacity needed to meet the demand from the rapid passenger growth over the past five years. Further delay in soliciting proposals for these opportunities will impact the ability to open this new capacity as close as possible to the completion of the infrastructure projects.

Jobs: These units will create new jobs, a key goal of the Commission.

Non-aeronautical Revenue: Increasing non-aeronautical revenue is key to funding airport infrastructure projects.

DETAILS

Description of Opportunities

The two opportunities proposed for competitive solicitation are:

Food & Beverage LG 4 RFP F-8

CT-1 and CT-1MZ: a casual dining two-level restaurant with an open concept (no restrictions). This is an approximate 10,900 square foot space in the Central Terminal. The mezzanine level will be accessed by a Port-constructed elevator and stairs. The current lease on this unit is held by Anton Airfoods/Host International and operated as an Anthony's Restaurant, a local concept.

The lease terms and projected schedule are contained in **Appendix A**.

Food & Beverage LG 4 CEP F-9

CT-24 and CT-24 MZ: a casual dining restaurant on the mezzanine level with a market and/or bar component on the main level with an open concept (no restrictions). This is an approximate 6,500 square foot space in the Central Terminal. The mezzanine level will be accessed by a Port-constructed elevator and stairs. The current lease for the main level space is held by LaTrelle's and was operated as a Wendy's prior to its closure on February 8, 2018.

The lease terms and projected schedule are contained in **Appendix B**.

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Authorization Approach

The F-8 opportunity will be competed via the Request for Proposals (RFP) process. The F-9 opportunity will be competed using the Port’s Competitive Evaluation Process (CEP). The primary differences between the RFP and the CEP are:

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

Summary of Evaluation Criteria

The seven evaluation criteria proposed for scoring proposals, the proposed total point allowance of 150 points and the proposed point allocation for each criteria, are the same as approved by Commission for use in evaluating all other proposals for LG 4. The descriptions below 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. Ten (10) points of the 25 total points for this criterion will be awarded based on the evaluation of the concept as it pertains to creating a Pacific Northwest sense of place within the Airport.

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).

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/Staffing, Operations, Customer Service and Environmental Sustainability 20 points

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The company must demonstrate its ability to effectively manage all units and operations, which includes quality leadership and adequate levels of staffing. The company must also 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 must also demonstrate its commitment to providing a high level of customer service at its operations at Sea-Tac. Environmental sustainability measures that the company currently practices or will practice in the operation of the business, including (where applicable) separation of waste, recycle, and compost, and the use of durable or Cedar-Grove approved compostable or recyclable food service-ware should be documented.

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. Greater emphasis will be placed on proposed wages and medical/retirement benefits and a quantitative-formula-based methodology for scoring wages and medical/retirement benefits will be utilized.

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:

- (1) For 2018, wages shall be paid at the minimum rate of \$15.64 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.
- (2) Payment of sick and safe time, which shall be accrued at the rate of one hour for every 40 hours worked.
- (3) 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).

- (1) A company that qualifies as a small business relative to the standards adopted by the U. S. Small Business Administration and proposes directly (whether via CEP or RFP), will automatically receive ten (10) points.
- (2) For units competed via CEP, only small businesses that propose directly can receive the full 20 points for this criterion.

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- (3) For units competed via RFP, all companies regardless of size are eligible to receive the full 20 points for this criterion.
- (4) Large businesses that propose a joint venture with a small business (whether via CEP or RFP), and that agreement meets the FAA guidelines for joint ventures and includes a minimum of 20% share of capital investment, will automatically receive 5 points.
- (5) 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).
- (6) No proposer, though, may earn more than twenty (20) total points for the criterion.

Minimum Qualifications

Firms who are not fully compliant with Proposition 1 back wages and benefits will be disqualified from participation.

The Port has a significant proprietary interest in the success of the ADR Program and so it is in the Port’s best interest to try and eliminate disruptions to our tenants’ operations due to labor disputes that can also negatively impact customers using the Airport as well as airline operations. As such:

- (1) All non-exempt respondents must submit a labor peace agreement with their proposal that includes signatures from a senior officer of the respondent’s organization and a labor union that is capable of representing the workers of the respondent in collective bargaining or already has a collective bargaining agreement with the respondent.
- (2) The Port will have no role in reviewing or establishing the terms of these agreements.
- (3) Small businesses (as determined by U.S. Small Business Administration criteria), which have 35 or fewer badged airport employees, will be exempted.

Lease Parameters

Lease terms 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 terms for these two opportunities are 10 years, the same as other food and beverage opportunities presented to the Commission in Lease Groups 2, 3 and 4.

For these two 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.

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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 schedule for this competitive process is noted in the table below. The exhibit for each LG 4 opportunity shows the anticipated timeline for solicitation, award and opening of the units associated with that opportunity. Upon execution of a lease agreement, the design review and permitting process can take up to six months followed by three to four months for construction before the commencement of business.

Projected Date	Action
February 27, 2018	Request Commission authorization to solicit proposals for these two opportunities.
March 2, 2018	Advertise opportunities (ADR leasing website and through various local and national media).
March 21, 2018	Tours and training sessions for interested businesses.
March 2 through May 31, 2018	90 days for proposal preparation.
May 31, 2018	Responses due.
July/August 2018	Port Evaluation Panels complete their evaluations.
August/September 2018	Notification to preferred respondents. Update Commission on results.
September/October 2018	Lease negotiations and executions.

STRATEGIES AND OBJECTIVES

The approval of the proposed 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:

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

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

- (1) Encourage broad business participation;
- (2) Use flexible competitive leasing processes to accommodate all types of business;

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- (3) Create new opportunities for small, disadvantaged and local businesses;
- (4) Maximize employment continuity for qualified employees;
- (5) Continue ‘street pricing’ of products and services;
- (6) Improve efficiency and affordability in the unit build out process;
- (7) Establish job quality expectations in competitive processes;
- (8) Strengthen the Pacific Northwest sense of place.

Goals for the ADR program to be achieved by 2025:

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

ALTERNATIVES and IMPLICATIONS CONSIDERED

Alternative 1 – Re-start the competitive solicitation process for the two LG 3 opportunities under the evaluation criteria approved by Commission for LG 3.

Pros:

- (1) As Commission has already approved the solicitation of proposals for the two CT lease opportunities, this would allow the competitive process to re-start immediately.

Con:

- (1) This is not consistent with Commission decisions regarding evaluation criteria for use in LG 4.

This is not the recommended alternative.

Alternative 2 – Seek Commission authorization to re-start the solicitation process for these two LG 3 opportunities using the LG 4 evaluation criteria.

Pros:

- (1) This is consistent with recent Commission decisions regarding evaluation criteria for use in LG 4.

Cons:

- (1) This requires additional time to seek Commission approval.

This is the recommended alternative.

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Economic Implications:

Based on the current schedule for the Central Terminal elevator and HVAC projects, the F-9 location (CT-24/CT-24MZ: new mezzanine restaurant on the south-side of the CT) should open in March 2019 when Phase 1 of the CT Infrastructure Upgrade Project is completed. However, the delay in receiving proposals for these opportunities compared to the other opportunities in Lease Group 3 means that this unit will not be ready to open when Phase 1 of the Central Terminal infrastructure work is completed in March 2019.

Assuming a March 2, 2018 date for advertising these opportunities, the earliest that this unit can be open is Q4 of 2019, a potential vacancy of three (3) quarters. For every month that this unit is dark beyond the completion of Phase 1 of the infrastructure project, the lost sales per month is projected at \$600k with monthly lost revenue to the Port projected at \$60k. Every month of delay in publishing the solicitation of proposals for this unit beyond March 2018 just adds to this lost sales and revenue.

The current schedule for completion of Phase 2 of the CT Infrastructure Upgrade Project is Q1 2020. In order for the current location occupied by Anthony's (F-8: CT-1/CT-1MZ) to be ready to open when Phase 2 of the CT infrastructure projects is completed, this opportunity needs to be advertised for solicitation of proposals by the beginning of March 2018. Every month of delay in publishing this opportunity beyond that would result in lost sales per month of \$1.3 million and lost monthly rent to the Port of \$155k.

In both cases, some portion of these sales (and revenue to the Port) could be made up by other ADR tenants but certainly not all. The impacts on customer service would be significant. And there is also the significant impact of a delay in creating new jobs and associated tax revenues.

ATTACHMENTS TO THIS REQUEST

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

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- June 27, 2017 – Commission authorized the solicitation of proposals for the Airport Dining and Retail Lease Group 4 opportunities
- June 13, 2017 – The Commission was briefed on outcomes of the Lease Group 3 competitive solicitation process with a preview of leasing opportunities and recommendations on key policy issues for use in Lease Group 4
- 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

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- 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