



AGENDA MEMORANDUM

Item No.

6d

ACTION ITEM

Date of Meeting

December 11, 2018

DATE: December 4, 2018

TO: Stephen P. Metruck, Executive Director

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

SUBJECT: Airport Dining and Retail Tenant Reimbursement Request and Lease Amendment for SP-LW LLC

Amount of this request: \$360,095.72

ACTION REQUESTED

Request Commission authorization for the Port to reimburse Seattle-Tacoma International Airport tenant SP-LW LLC (Sub Pop-Li'l Woody's) up to an amount not to exceed \$360,095.72 for costs incurred in the design of the CC-06 unit awarded to this firm in the Airport Dining and Retail Lease Group 3 and for the Executive Director to execute a lease amendment with this firm that includes a change in premises, construction build-out, and lease termination dates, as well as a mutual release of any potential claims relating to the unavailability of unit CC-06.

EXECUTIVE SUMMARY

As part of the Airport Dining and Retail (ADR) Master Plan, a certain number of retail spaces in the airport terminal were designated for conversion to food and beverage units in order to meet the projected demand from passengers at Seattle-Tacoma International Airport (Airport). One of these spaces identified for conversion is located on Concourse C (CC-06) (Exhibit A) and was included in the ADR Lease Group 3 (LG3), approved for solicitation of competitive bids by the Commission on June 14, 2016, as a full-service restaurant.

Food and beverage operations require significantly more utilities, specifically: water, gas, sewer and a grease waste line, than a retail business does. Following award of the lease for the CC-06 space to SP-LW in June 2017 for construction of Poppa Woody's, a gourmet burger restaurant with a bar, Port staff undertook the work necessary to bring the required utilities to the leasehold line for use of this space by the tenant as a full-service restaurant. During this work, it was determined that the required grease waste line could not be installed per current building codes. Port staff and the design team from SP-LW worked diligently together in the subsequent months in an attempt to find a solution that met the building code requirements and was cost effective for all parties involved. After extensive discussions evaluating all possible options, it was determined that the space CC-06 was not suited for a full-service food and beverage operation.

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Given this determination, the most cost-effective solution is to reimburse SP-LW for their verified costs incurred to-date for design of the CC-06 space through a tenant reimbursement agreement totaling \$360,095.72 and to amend their lease for use of a comparable space elsewhere in the terminal, specifically NS-23 (Exhibit B), for the same period of time as was intended for the lease of the CC-06 space.

JUSTIFICATION

The Airport Dining and Retail Master Plan was developed in 2013-2014 to guide the redevelopment of the Airport's dining and retail program as leases for 90% of the ADR units were expiring between 2015 and 2017. This master plan identified the need for significantly more space devoted to food and beverage operations to meet the demand from the forecasted growth in enplanements through 2025. The master plan proposed the creation of new dining and retail spaces in the terminal as well as the conversion of spaces then used for retail businesses for use as food and beverage operations. One of the spaces proposed for this conversion from a retail location to a food and beverage operation was CC-06 located on the C Concourse.

This space, Single Unit Package #5, was one of a number of leasing opportunities included in ADR LG3 which was approved by the Commission for competitive solicitation on June 14, 2016. SP-LW, a joint venture between Sub Pop and Little Woody's; two small, locally-owned businesses, submitted a bid for this space and were awarded a Lease and Concession Agreement (Agreement) in June 2017 for operation of Poppa Woody's, a gourmet burger restaurant with a bar. Following award of the Agreement, Port staff commenced with the work to convert the vacant CC-06 space to a food and beverage unit. This work included the reconfiguration of utility lines to bring all required utility points of connection to the leasehold line for final connection by the tenant. As this space had previously been used for a retail business, the only existing utility service available at the location was electricity.

As an early step in SP-LW's design efforts, Port staff and the tenant agreed that coordinating the installation of the grease waste line would be best served through a joint effort to locate the point of connection and a single effort to design and construct the line. Typically, these utilities are designed and constructed separately; the Port provides the utilities from the main lines to the leasehold line of the tenant space and the tenant connects to these utilities relocating them as necessary to best serve the layout of their space. Because this location was particularly challenging due to its remoteness from the main grease waste lines and the amount of intervening other utilities, all agreed that a single effort would yield the best results.

Based on the tenant's design work, it became apparent that the grease line could not be connected to the unit without major disruption to the surrounding terminal building as well as exorbitant costs that would prove too onerous for SP-LW, a local small business. Port staff and the tenant's design team then engaged in extensive discussions over several months to identify options to resolve this issue. Ultimately, it was determined that the grease line could not be built in a manner that would meet applicable building code requirements and the operational needs of the tenant.

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Based on these factors, coupled with a desire to alleviate further time and financial burden to SP-LW, Port staff determined that the best option was to reimburse SP-LW for all verified design costs expended to date on the CC-06 space and to offer the firm a comparable space elsewhere in the Airport. The comparable space is NS-23 located in the North Satellite. SP-LW has agreed to this proposal. This change in premises along with other changes necessitated by this action including build-out dates and the lease termination date along with a release of all claims between both parties are included in the attached lease amendment (Exhibit C). There are no changes to the concession fee or other commitments made by SP-LW in their proposal for the CC-06 space that was competitively bid as part of ADR LG3. The NS-23 space was planned as a full-service restaurant to be included for competitive solicitations in ADR Lease Group 5. This unit will be built as part of the North Satellite Phase 2 work.

Key Changes to the Lease and Concession Agreement:

Section	Current Language	Amended Language
Premises (1.33)	Unit CC-06 approximately 1,290 square feet	Unit NS-23 approximately 1,800 square feet
Expiration Date (1.14)	September 30, 2028	December 31, 2031
Build-Out Deadline Date (7.2.1)	October 1, 2018	Approximately 120 calendar days following the Occupancy Date. The Port shall confirm the Build-Out Deadline in writing.

This situation has illuminated the need of additional planning for implementation of the ADR Master Plan regarding utility hook-ups for spaces being converted from retail to food and beverage locations. Port staff has now put in place the appropriate protocols to ensure that the necessary planning for the utility infrastructure for each proposed unit has been completed and the associated costs are fully understood and that each proposed space is viable for the chosen concept.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Require tenant to develop a different concept for the CC-06 space that does not require all the utility infrastructure for a full service restaurant.

Cost Implications: No cost implication for the Port.

Pros:

- 1) There would be no costs incurred by the Port.

Cons:

- 1) This would negatively impact the tenant’s financial position given the large sum of money already expended for design of the Poppa Woody’s concept.
- 2) This alternative could lead to potential claims by the tenant due to its inability to complete build-out of this space without incurring costs that would make its business untenable
- 3) This would cause a hardship for a local, small business

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- 4) If the tenant is requested to develop a retail concept for this space (instead of the food service concept they competed for), this could lead to a challenge against the Lease Group 3 competitive process.

This is not the recommended alternative.

Alternative 2 – Reimburse the tenant for their verified design costs expended to date on the CC-06 space and offer the tenant an alternate space (NS-23) in the Airport

Cost Implications: \$360,095.72

Pros:

- 1) This would resolve any potential claims by the tenant against the Port
- 2) This reduces the financial burden on a local small business

Cons:

- 1) There is a substantial financial cost to the Port
- 2) The alternate space given to the tenant will result in the elimination of this space from a future lease group

This is the recommended alternative.

FINANCIAL IMPLICATIONS

This is not a budgeted expense and will result in an unfavorable variance in 2018. This unbudgeted expense can be absorbed by the Aviation Division within the non-aeronautical net operating income budget due to non-aeronautical revenues in excess of the 2019 budget. The funding for this expense will come from the Airport Development Fund.

ATTACHMENTS TO THIS REQUEST

- (1) Exhibit A CC-06 Diagram
- (2) Exhibit B NS-23 Diagram
- (3) Exhibit C Draft lease amendment

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

June 14, 2016 – The Commission authorized Airport Dining and Retail Lease Group 3.