Port of Seattle

COMMISSION
AGENDA MEMORANDUM | **Item No.** 6b
ACTION ITEM | **Date of Meeting** October 22, 2019

DATE: September 23, 2019

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 (ADR) Tenant Reimbursement Request

Amount of this request: $796,000
Total estimated project cost: $796,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to

(1) reimburse Airport Dining and Retail tenants Seattle Air Ventures, JV (not to exceed $10,000); Airport Concessions, LLC (not to exceed $212,000); Bambuza Sea-Tac Ventures (not to exceed $61,000); SSP America, LLC (not to exceed $170,000); Sub Pop Records (not to exceed $143,000); and Planeware LLC (not to exceed $200,000) for costs incurred in the design of Lease Group 3 and 4 units which designs are no longer suitable due to required changes to or relocation of the tenant's lease premises; and

(2) for the Executive Director to prepare and execute lease amendments with each of these tenants, respectively, to memorialize payment of the proposed reimbursement, required modification or relocation of their lease premises and, as applicable, extension of construction build-out and lease expiration dates.

EXECUTIVE SUMMARY

Several ADR units, awarded in recent lease groups, are in locations that are likely no longer financially viable, are needed for operational purposes in the next several years or do not have sufficient infrastructure for normal operation of the unit. As such, staff believes it is in the best interests of the Airport and the tenants to compensate these tenants for costs expended to date in the design of their units and then to move them, if they so choose, to comparable locations in the North Satellite (NSAT), the one part of the Airport where there are vacant units available. The total cost of reimbursements to the 6 tenants is $796,000. These funds would come from the Airport Development Fund.

Staff is aware of several other ADR units from recent lease groups that are in the design stage of development now that also have issues with insufficient infrastructure. However, resolution of these issues is still in process. In order to not delay payment to those ADR tenants where agreement has been reached regarding appropriate compensation, staff is proposing a two-step process: reimbursement to those tenants identified in this memo now and then an additional request to Commission in the first quarter of 2020 once all the other issues associated with insufficient infrastructure are resolved.

JUSTIFICATION

Diversity in Contracting

ADR is working with the Port's Diversity in Contracting team to identify opportunities that would include Women and Minority-owned Business Enterprise (WMBE) firms. Several of the businesses involved in this matter are either small, local, and Airport Concessions Disadvantaged Business Enterprise (ACDBE) firms with direct leases or are in joint venture partnerships. This proposal to reimburse the tenants for costs incurred to date and to move them to other locations will preserve the presence of these small, local and disadvantaged businesses in the Airport.

DETAILS

This request is for funds to reimburse certain ADR tenants (Seattle Air Ventures, JV; Airport Concessions, LLC; Bambuza Sea-Tac Ventures; SSP America, LLC; Sub Pop Records; and Planeware LLC) for costs incurred in designing units that have been negatively impacted by the Airport's ongoing challenge of responding to the rapid growth in enplaning passengers during the past 5 years. These units were included in the ADR Master Plan, developed in 2013-2014, to improve customer service and maximize non-aeronautical revenues. They were awarded to firms during the competitive solicitation processes for ADR Lease Groups 3 (2016) and 4 (2017).

Since the development of the ADR Master Plan, enplaning passengers at the airport have grown by nearly 40%. To accommodate this rapid growth, Airport staff has had to make short-term operational and facility changes as well as initiate planning for long-term facility changes. These changes will negatively impact several ADR units awarded in previous lease groups. Staff believes that it is in the best interest of the Port to reimburse these tenants for their costs incurred to date in designing units that will likely either struggle to achieve financial success or that the Port will need for operational purposes well before the end of their leases and to relocate these tenants to comparable locations in the new North Satellite (NSAT Phase 2), if they so desire. In addition, Airport staff has determined that one unit does not have sufficient infrastructure (specifically, air capacity) to support its operation. Thus, staff recommends that this tenant also be reimbursed for their design costs incurred to date.

Seattle Air Ventures JV

The 2014 ADR Master Plan included plans to increase retail offerings in the Central Terminal. In Lease Group 4, Seattle Air Ventures JV (Seattle Air Ventures), comprised of Hudson Group

MBSB, Inc. and Warren's News & Gifts, was awarded a lease to operate a retail unit featuring the Filson brand, a local clothing company. However, in response to increasing congestion at security checkpoints, Airport staff recently conducted a study to evaluate the best way to minimize this congestion. A key finding of that study is a need for expanded security checkpoints and specifically, in the areas where this unit is located. Thus, Airport staff believes that the Filson location will likely be needed for expanded checkpoints in the next several years and it is in the best interest of the Port to reimburse Seattle Air Ventures for costs incurred to date and to relocate this tenant to a comparable location in the new North Satellite.

Seattle Air Ventures was offered and accepted relocation to unit NS-15.

Accordingly, Port staff proposes to reimburse Seattle Air Ventures for its design costs (in an amount not to exceed $10,000), and to execute a lease amendment to memorialize its relocated lease premises and revised construction build-out and lease expiration dates.

Sub Pop Records

Also, in Lease Group 4, Sub Pop Records (Sub Pop), a local record company, was awarded a lease to operate a retail unit featuring music and associated merchandise. This lease is for the same space that Sub Pop currently occupies in the Central Terminal. As with the space for Seattle Air Ventures mentioned above, Sub Pop's space is also needed for expanded checkpoints. Thus, Airport staff believes that it is in the best interest of the Port to reimburse Sub Pop for costs incurred to date and to relocate this tenant to a comparable location in the North Satellite.

Sub Pop was offered relocation to the NSAT Phase 2 but declined the offer and will leave the Airport once their current space is needed for operational purposes. However, the tenant has requested that it be allowed to continue operations until its lease premises are required for the checkpoint expansion.

Accordingly, Port staff proposes to reimburse Sub Pop for its design costs (in an amount not to exceed $143,000), to execute a lease termination agreement with Sub Pop cancelling its lease agreement awarded as part of Lease Group 4, and to execute a lease amendment with respect to Sub Pop's current lease to extend this lease for a mutually agreed fixed term followed by conversion to a month-to-month lease.

Airport Concessions, LLC and Bambuza Sea-Tac Ventures

In the 2014 ADR Master Plan, several units were proposed for the South Esplanade (the pre-security area behind the airline ticket counters that includes the security checkpoints) to provide more food and beverage options for meeters and greeters. Airport Concessions LLC (Airport Concessions) was awarded a unit in ADR Lease Group 3 to operate a Village Pub concept. Bambuza Sea-Tac Ventures (Bambuza) was awarded a unit in ADR Lease Group 4 to operate a 9th & Pike Artisan Sandwiches & Salad concept. However, given the rapid growth in enplaning passengers since the development of the ADR Master Plan, lines of passengers waiting to go through Security Checkpoints 3 and 4, routinely stretch in front of these proposed ADR units, making access to these locations challenging at best, if not impossible, for anyone who would want to enter.

Staff believes that continuing with the plan to put food and beverage units in these locations would likely result in businesses that would not be financially successful. Given the higher cost of relocating these ADR tenants after their unit build-outs are completed, staff recommends relocating these tenants now to comparable spaces in the NSAT Phase 2 and reimbursing them for their expenditures to date, primarily for unit design. Airport Concessions was offered and accepted relocation to unit NS-19. Bambuza was offered and accepted relocation to unit NS-22.

Accordingly, Port staff proposes to reimburse Airport Concessions for its design costs (in an amount not to exceed $212,000) and Bambuza for its design costs (in an amount not to exceed $61,000), and to execute a lease amendment with each of these tenants, respectively, to memorialize their relocated lease premises and revised construction build-out and lease expiration dates.

SSP America, LLC

The ADR Master Plan also included plans to install a new food and beverage unit in the Gina Marie Lindsey Arrivals Hall in order to improve customer service in this part of the Airport. SSP America, LLC (SSP) was awarded this space in Lease Group 3 for development of Café Ladro, a local coffee concept. However, this location is now needed for checkpoint expansion. SSP was offered and accepted relocation to unit NS-08 with the understanding that they would need to change their concept as the new unit is in the food court across from a large Starbucks unit. Staff does not believe it prudent to have two coffee concepts so close to one another. SSP is working with ADR staff regarding an alternative concept for this location.

Accordingly, Port staff proposes to reimburse SSP for its design costs (in an amount not to exceed $170,000), and to execute a lease amendment to memorialize its relocated lease premises, approval of an alternative concept for the unit, and revised construction build-out and lease expiration dates.

Planeware LLC

Finally, this request also includes funds to reimburse Planeware LLC (Planeware), an ADR tenant awarded a specialty retail unit in Lease Group 4 that is located at the entrance to Concourse D. After award, limitations in the building's air capacity were identified which means Planeware is unable to build its unit as awarded. The tenant expressed a desire to stay in this location but understands that it cannot build out the unit as planned.

Airport staff also believes that it is in the best interest of the Port to reimburse Planewear for its costs incurred for the buildout of the unit it was awarded. Planewear has agreed to stay in this space but will not build it out. Accordingly, Port staff proposes to reimburse Planeware for its design costs (in an amount not to exceed $200,000), to execute a lease amendment with Planeware to memorialize the discontinuation of its planned build-out in the lease premises.

There are other ADR tenants who were awarded units in Lease Groups 3 and 4 who have also encountered issues with inadequate infrastructure for their buildouts but with whom Airport staff has not yet been able to reach agreement on how to proceed. As such, staff recommends reimbursing these six tenants with whom tentative agreements have been reached now while continuing to pursue resolution of the other issues with an expectation to be reporting the results of those efforts to Commission in the first quarter of 2020.

Staff continues to learn about the limitations of aging infrastructure in the main terminal building and to plan appropriate investments to reduce the risk of these situations. For example, a capital project is included in the 5-year Capital Improvement Program to address the insufficient air capacity in the terminal. This is the Concourse C and D Heating, Ventilation and Air Conditioning Upgrade Project. The project is currently scheduled for 2023.

The total reimbursement amount for the locations listed above is $796,000.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not reimburse tenants for design cost.

Cost Implications: No cost implications for the Port.

Pros:
(1) There would be no cost incurred by the Port.

Cons:
(1) This would negatively impact the tenants financially.
(2) This would cause a hardship for small businesses that do not have the capital to absorb the current expenditures.
(3) This alternative could lead to potential claims by the tenants due to their inability to complete build-out of their spaces or to negative impacts from Port operations.

This is not the recommended alternative.

Alternative 2 – Reimburse tenants for the verified design costs expended to date.

Cost Implications: $796,000

Pros:
(1) This reduces the financial burden on the tenants especially our small local businesses.
(2) This would resolve any potential claims by the tenants against the Port.

Cons:

(1) There is a substantial cost to the Port.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

This is not a budgeted expense and will result in an unfavorable variance in 2019. 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) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

December 11, 2018 – The Commission authorized reimbursement for SP-LW LLC
June 27, 2017 – The Commission authorized Airport Dining and Retail Lease Group 4
June 14, 2016 – The Commission authorized Airport Dining and Retail Lease Group 3