



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10e

ACTION ITEM

Date of Meeting November 17, 2020

DATE: October 21, 2020

TO: Stephen P. Metruck, Executive Director

FROM: Dawn Hunter, Director Aviation Commercial Management
JJ Jordan, Capital Project Manager, Aviation Project Management Group

SUBJECT: Airport Food and Beverage Introductory Kiosk Design Authorization (CIP #C801111)

Amount of this request: \$1,150,000

Total estimated project cost: \$5,500,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to: (1) execute a professional services contract for design; (2) utilize Port Construction Services (PCS) and other related Port crews for preliminary work; (3) and complete the design for the Airport Food and Beverage Introductory Kiosk Project at Seattle-Tacoma International Airport for an estimated cost of \$1,150,000. The total estimated project cost to the Port is \$5,500,000.

EXECUTIVE SUMMARY

This project will create two kiosks equipped with a full kitchen suitable for the preparation and sale of food and beverage. The two kiosks are expected to open in Q1 2024. Since 2014, SEA has had a kiosk program for small retail businesses to have a short-term (6 to 18 months) opportunity to experience the airport environment without the normal investment required of a standard-sized unit. The addition of these two new kiosks will provide a similar opportunity for small food and beverage businesses. The kiosks will be designed for an easy transition from one operator to another.

Since this item was first brought to Commission for their consideration in June, the Airport Dining and Retail staff have made several changes to the authorization request: 1) removed the “faux food truck design concept”; 2) removed the honorium as part of the solicitation process for the design services ; 3) increased the focus on benefits to small food and beverage entrepreneurs; and 4) better aligned the mission of the kiosk program with the overall ADR Master Plan.

BACKGROUND

The Airport Dining and Retail (ADR) Kiosk Program, started in 2014 with the intent to provide small and disadvantaged businesses the opportunity to gain access to operating in the airport

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environment without a significant capital investment or long-term commitment. The program has two levels of participation: Introductory and Intermediate Kiosk. These two levels are meant to serve as valuable steps in the process of developing a business's ability to compete for a standard ADR unit. Currently, there are 3 units in the Introductory Program (located at the entrance to Concourse C) and 3 in the Intermediate Program (located at the entrance to Concourse A). These units are designed for businesses selling goods or packaged foods. To date, 11 companies have participated in the kiosk program. Five of the 11 companies were successful in transitioning to an intermediate kiosk. Two of the 11 companies bid in a Lease Group and were successful in obtaining a long-term lease.

The Introductory Kiosk Program provides a fully built out unit for the tenants who are selected via a simplified competitive process. The lease term is 6 to 18 months. This creates a learning opportunity for basic operational functions in the airport such as: delivery of goods, procuring security badges, and submitting sales reports, all without a major investment or long-term commitment.

At the completion of their lease, the Introductory Kiosk tenant can bid for an Intermediate Kiosk opportunity, if a unit is available. The Intermediate Kiosk builds off the knowledge gained in the introductory phase and provides enhanced operational learnings essential to successfully bidding for a standard ADR unit in future lease groups. Businesses selected for an Intermediate Kiosk are required to provide the funds to build-out their kiosks, to go through the design review process, and oversee the construction of their kiosks. Based on the increased capital investment, tenants in the Intermediate Kiosks are given longer lease terms (3 years) in order to amortize their investments.

During the past several years of competitive solicitations for standard ADR units, the ADR Team noticed a number of small food and beverage businesses that had quality offerings but were too small to compete in Request for Proposals (RFP) or even the Competitive Evaluation Processes (CEP) used to select firms for the build-out of the ADR Master Plan. In addition, through small business outreach in conjunction with the Diversity in Contracting Port Generators (PortGen), the Port has cultivated relationships with many small and minority-owned food and beverage operators in the region who expressed the desire to learn the airport concessions business. Spurred by the Commission's goal to increase small, local, disadvantaged business participation in the ADR Program to a 40% share of gross sales, Port staff set about creating an opportunity for these small food and beverage businesses to participate in the ADR Program through the creation of Introductory Food and Beverage Kiosks.

This project will create two food and beverage Introductory Kiosks equipped with a full kitchen suitable for the preparation and sale of food and beverage. The kiosk will be designed for minimal challenges in transitioning from one operator to another. Small business kiosks in airports are gaining popularity nationally, and incorporation of this concept provides a fun new addition to the passenger dining experience. The intent is to structure the food and beverage kiosks similar to its retail counterpart with an offer of an Intermediate Kiosk experience following participation

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in the introductory phase. The locations and buildouts of these Intermediate Kiosks, which are not part of this action, will be determined as the ADR Team develops the next ADR Master Plan.

This project was considered for deferral due to COVID-19, but the recommendation is to move forward with this project now with an expected completion date of 2023. In the current COVID-19-affected Airport operations, there is far more capacity in the ADR program than customer demand to fully utilize that capacity. However, in 2017, a demand analysis was conducted to determine if SEA's ADR program was appropriately sized. The outcome of that analysis was that SEA's food and beverage program was deemed deficient in all concourses and satellites for the number of people utilizing the airport. Based on the current Aviation Division forecast of a return to 2019 enplanement levels by 2023 and the build out of Phase 2 of the new North Satellite, there will be sufficient demand for the additional food and beverage capacity provided by these two kiosks.

JUSTIFICATION

The goal of this project is to create new opportunities for small businesses by reducing the barriers to entry for food and beverage operators within the ADR Program. Small businesses will be offered short term leases for the use of these fully-built-out units to prepare and sell food and beverages. This allows the small business to determine whether their concept might thrive in the Airport environment without having to make a significant capital investment and commit to a much longer lease term.

Diversity in Contracting

Diversity in Contracting Department and project staff will conduct outreach and set appropriate women- and minority-owned business enterprise (WMBE) aspirational goals for the design work. As part of a pilot program, the selected firm's subconsultants may be provided with the opportunity to participate in PortGen Trainings facilitated by the Port's Facility & Infrastructure Department.

DETAILS

The project consists of two locations in the airport terminal, one in Concourse B and the other in the Central Terminal.

The first location, on Concourse B, was previously used as a commissary kitchen for temporary food and beverage kiosks in the Central Terminal. A completed partial tenant improvement was already done in this location which brought utilities to this space for a full restaurant cook line including a hood and grease duct. These existing utilities will be re-assessed at each design phase as the project progresses. The completion of the tenant improvement requires the existing closed-off storefront to be modified for passenger walk up service, including addition of a service counter behind a new decorative façade. A small seating area will also be created within the space.

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The second location is a vacated dining facility in the Central Terminal, formerly the Anthony’s Grab and Go Fish Bar. This location requires new cooking equipment, finishes, and utilities. The façade at this location will need to integrate seamlessly into the adjacent new Salty’s restaurant storefront, which will be the primary backdrop for the north side of the Central Terminal. Due to the small size of this location, it will utilize existing seating in the Central Terminal.

Tenants will be offered short term leases for these kiosks to maximize the number of businesses that can take advantage of these opportunities. The Introductory Food and Beverage Kiosk program details will be revised as part of the new ADR Master Planning, this will include leasing terms and the procurement process. The Port will construct and maintain the infrastructure and equipment.

These storefront façades are highly visible, prominent design features which will impact the overall aesthetic of the airport, especially within the Central Terminal. This storefront design element is paramount to the passenger experience at these locations.

This request also includes funds to use small works contracts and Port crews to erect a barricade in the Central Terminal around the project site during construction, which will be required for public safety as well as to preserve the passenger experience within the Main Terminal. This barricade must be erected in tandem with the completion of the Salty’s project as it is necessary to conceal areas of demolished façade surrounding the project site.

Both locations include digital signage to easily promote tenants who will be rotated through these spaces on short-term leases as well as new cook lines and equipment with Type I grease exhaust and new finishes.

One identified risk to this project is the availability of enough conditioned air to both spaces. The final evaluation can only be made after design is complete. Based on the information that is currently available, staff believes that adequate air is available to condition the spaces. The conditioned air supply was enough for the site’s previous tenants, both of which were food and beverage services with similar requirements. The project team has identified alternative potential solutions if the supply of conditioned air is found during the design phase to be lacking.

Scope of Work

This project includes all typical components of a food service tenant improvement, with Port of Seattle furnished, owned, and maintained equipment.

Schedule

Activity

Design start	2021 Quarter 2
Commission construction authorization	2022 Quarter 3
Construction start	2022 Quarter 4
In-use date	2023 Quarter 3

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Cost Breakdown	This Request	Total Project
Design Phase	\$1,150,000	\$1,200,000
Construction Phase	\$0	\$4,300,000
Total	\$1,150,000	\$5,500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Reintegrate the Central Terminal space into the larger Lease Group 4A package, CT-01 Salty’s, and leave Concourse B location vacant for a potential new ADR vendor to complete later.

Cost Implications: \$0

Pros:

- (1) No capital cost to the Port.
- (2) Allows for maximum flexibility for the ADR group to consider new concessionaire businesses, based on concept and these locations.

Cons:

- (1) Does not increase opportunity for small, local, and WMBE businesses.
- (2) Lease Group 4A (CT-01 Salty’s) project schedule will be impacted by a change in scope.

This is not the recommended alternative.

Alternative 2 – Put both locations back out to lease for businesses.

Cost Implications: \$0

Pros:

- (1) No capital cost to the Port.
- (2) A specific lease group just for small businesses would allow the opportunity for small, local, and WMBE revenue from these locations.
- (3) May create an opportunity for a business who has capital to gain access to the airport through a direct lease.

Cons:

- (1) Development costs for these spaces are a high barrier of entry for small businesses.
- (2) Less flexibility of food offerings with standard 10-year standard lease terms.
- (3) In COVID environment the Port is most likely to receive no bids or lower rent structures.

This is not the recommended alternative.

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Alternative 3 – Build out two shared kitchens/ concepts. The Port will incur the cost for construction and maintenance for a faux food truck concessionaire space.

Cost Implications: \$5,500,000

Pros:

- (1) Ability to expand the successful small business retail kiosk program to food and beverage operators.
- (2) Shared kitchen/food truck concepts will allow for greater flexibility in food options for airport customers – able to change the concept and offerings more frequently.
- (3) Supports the Commission’s goal to achieve 40% share of ADR gross sales from small, local and disadvantaged businesses.

Cons:

- (1) Highest capital cost
- (2) Removes units from ability to be bid in larger lease groups with the potential to make more revenue for the Port.
- (3) Requires an additional maintenance program using a vendor contract.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$4,400,000	\$0	\$4,400,000
Current change	\$1,100,000		\$1,100,000
Revised estimate	\$5,500,000		\$5,500,000
AUTHORIZATION			
Previous authorizations	\$50,000	0	\$50,000
Current request for authorization	\$1,150,000	0	\$1,150,000
Total authorizations, including this request	\$1,200,000	0	\$1,200,000
Remaining amount to be authorized	\$4,300,000	\$0	\$4,300,000

Annual Budget Status and Source of Funds

This project was included in the 2020 – 2024 capital budget and plan of finance with a budget of \$4,400,000. The capital budget increase of \$1,100,000 will be transferred from the Non-Aeronautical Reserve CIP (C800754) resulting in zero net change to the Aviation capital budget. The funding source would be the Airport Development Fund (ADF) and future revenue bonds.

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Financial Analysis and Summary

	Alternative 3 (Preferred)	Alternative 2 (Not Preferred)
Project cost for analysis	\$5,500,000	\$0
Business Unit (BU)	Commercial Management	Commercial Management
Effect on business performance (NOI after depreciation)	NOI will average \$875,000 of non-aeronautical income through the 10 years after the asset is in use. NOI after depreciation will increase	NOI will average \$1.3 million of non-aeronautical income through the 10 years after the asset is in use. NOI after depreciation will increase
IRR/NPV (if relevant)	NPV (10 years after asset is in use) is \$300,000.	NPV is \$8.7 million.
CPE Impact	N/A	N/A

Future Revenues and Expenses (Total cost of ownership)

A service agreement for yearly maintenance of these spaces of approximately \$40,000 per year will be required after completion of the project. The financial analysis assumes this with an increase of 3% annually.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

June 23, 2020 – Staff request Commission authorization for the Executive Director to: (1) execute a professional services contract for design; (2) pay an honorarium to shortlisted design firms who do not win the award to develop concept proposals; (3) utilize Port crews for preliminary work; (4) and complete the design for the Airport Shared Kitchen Food Trucks Project at Seattle-Tacoma International Airport for an estimated cost of \$1,150,000. The total estimated project cost to the Port is \$5,500,000.