



COMMISSION
AGENDA
MEMORANDUM

ACTION ITEM	Item No.	8e
	Date of Meeting	<u>September 14, 2021</u>

DATE: June 11, 2021
TO: Stephen P. Metruck, Executive Director
FROM: Dawn Hunter, Director, Aviation Commercial Management
Khalia Moore, Interim Sr. Manager, Airport Dining and Retail
SUBJECT: **Interim Lease and Concession Agreement for Duty-Free Operations**

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a Temporary Lease and Concession Agreement for Duty-Free Operations between the Port of Seattle and Dufry-Seattle JV for space at Seattle-Tacoma International Airport.

EXECUTIVE SUMMARY

On September 11, 2012, the Port of Seattle Commission (Commission) authorized the Chief Executive Officer to release a Request for Proposal (RFP) and execute a seven-year agreement with a Duty-Free Operator. Dufry-Seattle JV (Dufry) was the successful respondent. The current term of the Lease and Concession Agreement between the Port of Seattle (Port) and Dufry expired in October 2019 and has continued on a month-to-month holdover status. This agreement included units in South Satellite, Central Terminal, Concourse A and Concourse D at the Seattle-Tacoma International Airport (Airport).

The COVID-19 pandemic had a great impact on the entire aviation industry. The loss of international passengers during the pandemic has severely and adversely impacted the overall duty-free operations and sales at the Airport. International travel has not returned in a meaningful way to support improved sales. In an effort to preserve the viability of its business and to protect the investments of its Airport Concessions Disadvantaged Enterprise (ACDBE) partners, Dufry has requested to re-negotiate the terms of its expired contract.

Approval of this temporary agreement will continue provide the additional services for the passengers, sustain revenues for the Airport, and continue the financial viability of the concession's operator until the complete Expanded Duty-Free plan is fully developed. On the contrary, if Aviation Commercial Management (AVCM) was unable to partner with Dufry for

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mutually favorable terms, the Airport could possibly lose an important and valuable passenger amenity for international passengers.

JUSTIFICATION

After the award of the Duty-Free Agreement in 2012, the Airport embarked on Airport Dining and Retail (ADR) Master Planning initiative, which the Port Commission authorized staff to move forward with, in 2014. The ADR Master Plan revamps the concessions program, by staggering the lease expiration dates, and diversifying the program from a mainly “master concessions” to right size of the number of small and minority owned businesses who are eligible to participate in the program. However, the ADR Master Plan does not include certain airport wide passenger amenities like Duty Free, Currency Exchange and Vending, therefore these services would need to be considered separately.

In 2019, staff identified the need for additional Duty-Free space in the airport. Once adequate space was identified, the Airport collaborated with multiple stakeholders to research and plan for the Expanded Duty-Free project on Concourse A and the South Satellite (SSAT) upgrade; these projects are currently in the planning phase. To prepare a comprehensive package for a Request for Proposal (RFP), the Airport will need to fully develop the Concourse A and SSAT projects. Information such as square footage and scope of work, delineating between base building and tenant responsibility, are primary for a proposer to provide the best financial projections and overall response to the RFP. With this in mind, Duty Free Planning will happen in three phases. As stated above the first phase is the evaluation of our current duty-free footprint to develop a plan of integration with the new and updates spaces. Phase two is the Concourse an Expanded Duty Free that will be brought to Commission on October 26th for approval to move the Project Delivery Document (PDD) forward. Phase three is moving in tandem with the other phases as ADR is working with AV Planning to develop the new SSAT upgrade plan.

As the Airport further develops the scope associated with the Expanded Duty-Free planning, staff recommends Commissioner approval of a temporary agreement with Dufry. Once the Expanded Duty-Free planning is complete, a comprehensive Duty-Free plan and subsequent RFP will be communicated, and staff will return to Commission for approval.

DETAILS

Key Terms of the Agreement are:

- Agreement Term:
 - Commence on January 1, 2021 to December 31, 2024
- Payments as Percentage Rent:
 - Under \$5 million - 16%
 - Between \$5 million and \$10 million - 18%
 - Over \$10 million - 20%
- Airport Concessions Disadvantage Business Enterprise (ACDBE) Participation
 - Concessionaire will maintain a minimum participation 12.5% ACDBE.

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ATTACHMENTS TO THIS REQUEST

- (1) Draft of Duty-Free Temporary Agreement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 11, 2012 – The Commission authorized the Chief Executive Officer to release a Request for Proposal (RFP) and execute a seven-year agreement with a Duty-Free Operator.