



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10a

ACTION ITEM

Date of Meeting October 26, 2021

DATE: September 22, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Dawn Hunter, Director, Aviation Commercial Management
Matthew Eng, Senior Business Development Analyst/AV

SUBJECT: Lease and Concession Request For Proposal for Duty-Free Operations at Seattle-Tacoma International Airport

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) issue a Request for Proposal to select a vendor for Duty Free Operations and (2) to execute a concessions agreement with the selected duty-free operator at Seattle-Tacoma International Airport.

EXECUTIVE SUMMARY

The Seattle-Tacoma International Airport (Airport) views the duty-free business as one with significant non-aeronautical revenue growth opportunities. This is especially important as the traditional sources of non-aeronautical revenue, such as parking fees, decrease. With the addition of international gates on Concourse A and the planned renovation of the South Satellite, modifications and expansions to the duty-free locations along with the selection of a new vendor are essential in leveraging this source of non-aeronautical revenue. It is anticipated that by Q4 2024 the duty-free space at the Airport will increase from 6,700 sq. ft. to over 15,000 sq. ft.

Duty-free operations at the Airport encompass more than just duty-free sales of alcohol and tobacco to international travelers. Duty-free shops also offer duty paid or 'travel value' priced merchandise such as cosmetics, perfume, luggage, handbags and other premium brand name products available for sale to savvy domestic travelers and even Airport employees. Additionally, Airport duty-free shops offer local retail gift merchandise that appeals to both the domestic and international traveler such as jewelry and confectionary.

Commission approved a temporary duty-free agreement with the current operator on September 14, 2021. Having the temporary agreement in place allows for a smooth transition while providing a continuous passenger experience.

Meeting Date: October 26, 2021

The proposed timeline for the selection of the duty-free operator aligns with the design, construction, and completion of the proposed Duty-Free Expansion on Concourse A.

DETAILS

Additional duty-free space is needed as the current allocated space has never been able to adequately accommodate the square footage needed within the duty-free locations to maximize non-aeronautical revenue. The increased space is also needed to allow the new operator to provide the square footage required by higher end brands for designated merchandising space within the duty-free footprint.

The 2016 Airport Dining and Retail (ADR) Master Plan did not address airport wide amenities like duty-free, luggage carts, vending, and currency exchange. In assessing these amenities, staff acknowledged the overall lack of duty-free space at the Airport.

However, during an assessment additional duty-free space was identified on Concourse A, which would increase duty-free square footage by approximately 9,000 sq. ft. In addition to the Concourse A Expanded Duty-Free project, it has been determined it is necessary to create a project to upgrade the South Satellite (SSAT). The upgrade to the SSAT would revamp the small duty-free space and create an expanded offering for international passengers within that concourse.

In 2018, staff also determined that the Airport would not release an RFP for duty-free. The rationale for this decision was that there was not enough information to develop a comprehensive RFP that would yield the financial terms viable to the Port. Moreover, the Project Definition Documents (PDD) were not fully developed at that time to allow the bidding firms the information required to present the best designs, as information pertaining to total square footage and base building layout are essential to a successful RFP. Combining the PDD effort with the release of the RFP represents a more cohesive approach to presenting interrelated items. In addition, the RFP will outline design and construction requirements and/or expectations the Port will require from successful duty-free operator. This will include any base building work that would be a part of a tenant reimbursement.

To effectively meet the Airport's current and future demands within the existing terminal footprint, the Airport must engage in thoughtful planning during the project definition phase. It is important to have the duty-free operator and their design team working in tandem with the concept development of the space to assure a better end product.

This project combined with the duty-free in the SSAT renovation project, will meet the passenger demand for duty-free.

Meeting Date: October 26, 2021

JUSTIFICATION

Currently, there is only 6,716 sq. ft. of duty-free space at the Airport, which encompasses a combination of locations in SSAT, Concourse A, and Concourse D. Compared to ASQ Large Hub airports, the Airport ranks 15 out of 22 airports total in providing adequate duty-free space per enplanement. The Airport also ranks 13 out of 22 airports in overall duty-free space. Duty-free operators are different from other airport retail in that they offer higher value goods for sale. Passengers departing on international flights frequently purchase higher end brands (e.g., Dior, Versace, Luis Vuitton, Burberry, Hermes, etc.), liquor, cigarettes, and high-end accessories prior to their departing flights because they do not have to pay taxes on the items that are leaving the country. Since most of their inventory is more expensive than typical airport retail, the revenue generated per square foot of space is usually significantly higher than other spaces.

The existing duty-free units do not provide adequate space for current passenger demand, let alone additional demand expected once the International Arrivals Facilities (IAF) opens. Creating this large walk-through duty-free retail experience directly supports the Port's dedication to financial sustainability and advances the Airport as a leading tourism destination in the global marketplace. Additionally, the contract will include specific square footage dedicated to Women/Minority owned Business Enterprises (WMBE) / Small Business opportunities within the Duty-Free footprint.

The Airport currently makes 50% less duty-free non-aeronautical revenue than comparable U.S. Airports.

Diversity in Contracting

The ADR program is governed by the Federal Government and will include Airport Concessions Disadvantage Business Enterprise (ACDBE) participation and/or WMBE participation by nature of the design.

DETAILS

- This project will require arrangements to relocate existing tenant leases, including potential agreement buy out terms (Q2 2023). Additional Commission action to discuss cost of buyouts may be required.
- Staff will explore the opportunity for a Tenant Reimbursement arrangement with the new duty-free provider to potentially complete base building changes.

Meeting Date: October 26, 2021

SCHEDULE	
Conceptual Planning	Completed
Project Definition Document	Phase 1: Concept Refined
	Phase 2: 15% Design
Duty Free Vendor RFP Authorization	Commission Authorization for Vendor RFP October 26, 2021
Design	Commission Authorization for Design (Target Q3 2022)
Duty Free Vendor Awarded	Target Q4 2022
Building Construction	Commission Authorization for Construction (Target Q3 2023)
Activation	Target Q3 2026

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Staff is recommending the second, preferred alternative described below.

Alternative 1 – Negotiate a new contract with the current Operator.

Pros:

- (1) Doesn't require the Port to undergo the RFP process.
- (2) Staff and base building designer could start interacting with current tenant immediately.

Cons:

- (1) Inhibits the process of fair competition.
- (2) Port will not get the benefit of competitive design to best meet our needs.

This is not the recommended alternative.

Alternative 2 – Issue a competitive bid for the Duty-Free Operator.

Pros:

- (1) Allows for fair competition.
- (2) Creates additional opportunities for new WMBE and ACDBE businesses.
- (3) Allows the Port to receive the desired design through the competitive process.

Cons:

- (1) Project team will need to wait until the competitive process is completed to engage the operator.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None