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COMMISSION

AGENDA MEMORANDUM Item No. 10b

ACTION ITEM Date of Meeting December 12, 2023

DATE : November 14, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Jeffrey Wolf, Director, Aviation Commercial Management

Khalia Moore, Senior Manager, Airport Dining and Retail

SUBJECT: Lease and Concession Request for Proposal for Eight Various Food and Beverage Locations and Five Various Retail Locations Within the New Concourse C Expansion and Surrounding Areas at Seattle-Tacoma International Airport (SEA)

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) conduct a Request for Proposal (RFP) with recommended adjustments per the November 14, 2023, Commission Briefing and noted in the Executive Summary below and (2) execute a Lease and Concession Agreement with selected proposers for the 13 locations known as CCE-RFP. The following locations that are within the CCE-RFP in the eight (8) food and beverage and five (5) retail opportunities associated with the new Concourse C Expansion (CCE) project:
Food and Beverage locations: CC-26, CC-28, CC-30, CC-37, CC-38, CC-40, CC-41, and NE03.
Retail locations: CT-08, CT-07, CT-27, CC-25, and CC-27 .

EXECUTIVE SUMMARY

The continued redevelopment of the Airport Dining and Retail (ADR) Program offers an excellent opportunity to advance the Port's Century Agenda goals by enhancing the Airport's profile as the preferred gateway to the Pacific Northwest, by promoting job growth, by creating new opportunities for small, local, and disadvantaged businesses, and by meeting the expectations of the traveling public for quality food service, retail products, and personal services.

The ADR program is an important element of the Port's ongoing efforts to provide outstanding customer service and improve the traveling experience. In addition, the businesses generate significant revenue that is reinvested to support airport operations and capital improvements. This request is for new ADR locations that are being constructed as part of the CCE Project to be released for concessions bidding opportunities at SEA. This is the last new space opportunity within the ADR program until the potential new retail opportunities associated with the South Concourse renovation project. All other ADR RFPs will be associated with the natural expiration of current locations lease terms.

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Staff will utilize the same RFP process that reflect Commission's guidance used in past ADR Program redevelopment Lease Groups 2 – 5 with a change to small business exemption for Labor Harmony Agreement. Previously, small business firms with 35 or more employees were required to obtain an LHA. As part of this RFP, the requirement will change to small business firms having three or more units being required to obtain an LHA. Firms with less than three units will be exempt from this requirement.

In the event that the timing of the Labor Harmony Agreement is adjusted in the future, the Executive Director will administer an amendment to the RFP.

JUSTIFICATION

The CCE project is the latest and one of the last projects to add new ADR locations into the overall ADR inventory. The approval of these proposed RFP opportunities continues to support the Port's Century Agenda to create 100,000 new jobs and provide opportunities for small, local, and disadvantaged businesses.

The RFP bidding opportunities will be comprised of both single unit and multi-unit packages. There will be one food and beverage package and one retail package, and both will consist of two locations. There will be at least one (1) location specifically identified for small business proposals only. Currently, all locations are designated as open concept categories to allow for greater variety of proposals and staff is still evaluating concept specific needs on a space-by-space basis.

Diversity in Contracting

The ADR program is governed by the Federal Aviation Administration (FAA) and will include Airport Concession Disadvantage Business Enterprise (ACDBE) aspirational goals in line with the

Aviation Business Goals and Objectives. Current 2023 goals for ACDBE participation stands at 23.5%.

DETAILS

Schedule

Preliminary RFP Schedule for the RFP:

Commission authorization to release RFP December 2023

Release RFP Documents Q1 2024

Written Proposals Due Q2 2024

Award and Lease Agreement Execution Q3 2024

Business Terms

Food and Beverage Lease and Concession Agreements will be for a period of twelve (12) years.

Retail Lease and Concession Agreements will be for a period of ten (10) years. The previous standard for contract lease terms has been eight (8) years for retail and ten (10) years for food

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and beverage. Increased costs to build and the impact those increased costs have had on the time in which a return on investment is realized, has been a point of focus for Staff. Staff recommends extending the standard term for retail from eight (8) years to ten (10) years and food and beverage from ten (10) years to twelve (12) years. This move aligns with rightsizing of contract terms and providing the spaces in a demoed condition as staff recommended to Commission on March 8, 2022.

There are multiple locations within the Concourse C Expansion project that are not a part of this RFP release as there are extenuating circumstances regarding the leasing of those locations: six (6) introductory kiosk locations, which have a limited contract term and space CC-29, which is allocated as a contractually required replacement space for a displacement.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 - Directly negotiate all thirteen (13) opportunities individually.

Pros:

(1) Doesn't require the Port to undergo the RFP process.

Cons:

(1) Inhibits the process of fair competition.

(2) Port will not get the benefits of a competitive process and innovations available with each of these RFPs.

This is not the recommended alternative.

Alternative 2 – Issue competitive RFPs for the thirteen (13) opportunities.

Pros:

(1) Allows for fair competition.

(2) Creates additional opportunities for new small, WMBE and ACDBE businesses and the introduction of new innovations in technology as identified in the RFP proposals.

Cons:

(1) Due to the current economic environment, the Port may receive limited responses to the RFP.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The additional thirteen (13) units will provide an increase in new non-aeronautical revenue at SEA estimated to range from \$15 -\$20 million per year depending on final mix of uses (food and beverage vs. retail), lease terms, and passenger demand.

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On October 24, 2023, the Commission approved termination agreements of the current Concourse C operations and net book value buyout (NBV) for three (3) locations impacted by the Concourse C construction. The value of the NBV buyouts is approximately \$2.5 million.

Project cost for analysis \$0

Business Unit (BU) Aviation Commercial Management

Effect on business performance NOI will increase with new non-aeronautical revenue

(NOI after depreciation) from 13 additional ADR units but be offset by the NBV buyout of the three locations impacted by the construction of the new Concourse C facility.
IRR/NPV (if relevant) N/A
CPE Impact N/A

ATTACHMENTS TO THIS REQUEST

(1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

March 8, 2022: ADR Tenant Build-Out Analysis

October 24, 2023: Commission approved Lease and Concession Termination Agreements for Airport Dining and Retail (ADR) locations affected by the Concourse C Expansion Project (CCE) and Concourse A Duty-Free (Duty-Free) Construction in the amount of \$2,479,145.

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