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COMMISSION

AGENDA MEMORANDUM Item No. 10c

ACTION ITEM Date of Meeting March 26, 2024

DATE : March 18, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Jeff Wolf, Director, Aviation Commercial Management

Eileen Francisco, Director, Aviation Project Management Group

SUBJECT: Airport Food and Beverage Introductory Kiosks (CIP #C801111)

Amount of this request: \$5,850,000

Total estimated project cost: \$7,050,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to 1) authorize the preparation of construction bid documents, 2) advertise, award, and execute a major public works construction contract for the Food and Beverage Introductory Kiosk project. The amount of this request is \$5,850,000.

EXECUTIVE SUMMARY

This project will incorporate food and beverage into the framework of Airport Dining and Retail's (ADR's) Introductory Kiosk Program by creating two rotating in-line food incubator concepts. These concepts will add diversity and flexibility of offerings for SEA passengers in two separate locations: one on Concourse B (CB-04) and the second in the Central Terminal (CT-02), directly underneath the recently completed Brewtop Social.

Prior to the solicitation of construction services, the project team is requesting additional budget to close out the design phase. The Port's designer has notified the project team of additional project increases associated with the development of the 100% design package. These cost increases are a direct result of resolving critical design issues to conform designs to existing conditions and time associated with the evaluation/approval to reuse the existing kitchen equipment, where applicable.

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 a three-year flexible lease term for the fully-built-out units to provide food and

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beverage services. This will allow the operators to determine whether their concept might thrive in the airport environment without having to make a significant capital investment and commit to longer lease terms. Both locations will be designed, constructed, and maintained by the Port. These units will provide the Port with additional non-aeronautical revenue but are primarily intended to provide opportunities for small businesses to enter the airport food and beverage market who otherwise would not be able to due to high build-out and start-up costs.

This program is an extension of the widely successful retail kiosk program, which has advanced multiple small businesses from introductory kiosk opportunities into both intermediate kiosks and successful RFP respondents for long-term inline spaces.

Between August 2019 and November 2020, \$1,200,000 was authorized for planning and design services. Originally the total project value was estimated at \$5,500,000.

Design solicitation and preliminary concept development occurred between April 2021 and August 2022. After a slight delay, due to COVID, the project kicked off full design in January 2023.

Upon receiving the 100% design submittal in October 2023, critical design issues arose concerning the approval to reuse the existing kitchen equipment within the CB-04 location.

Design revisions and extensive coordination was required to secure said approval. Delivering the space with a diminished cookline or fully replacing the gently used equipment would have been detrimental to both the project vision and budget. These efforts significantly depleted some the design funds needed to complete design and develop both the permit and bid packages.

Diversity in Contracting

The project team has worked with the Diversity in Contracting and set a women- and minorityowned business enterprise (WMBE) aspirational goal of 15% for this project.

DETAILS

As a result of the necessary and lengthy design coordination, the Port has reassessed the overall project budget and determined a budget increase is warranted, in addition to requesting Port Commission's authorization of remaining budget.

The value of this request incorporates all known cost increases to close out design, prepare bid documents, allow the Designer of Record to provide minimal design support during construction, and allow for project management by a Consultant Project Manager.

Project estimates are consolidated in the table below with the additional \$1.55 million increase reflected within the current estimate.

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Item	Original Estimate	Current Estimate
Planning & Design	\$1,200,000	\$2,700,000
Construction	\$4,300,000	\$4,350,000
TOTAL	\$5,500,000	\$7,050,000

The additional design coordination required to resolve critical project issues provided insight for lessons learned, which are as follows:

- (1) Recognition that designers new to the Port will require more investment, both financially and from a project delivery resource standpoint to ensure new designers are successful in navigating the Port's processes and design standards. Efficiencies are gained when new designers are paired with experienced project managers.
- (2) In depth oversight by staff familiar with Port standards and practices during design development is necessary to verify designs conform to the vision of the project and existing site conditions.

Scope of Work

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

Specific scope includes new lighting, signage, ceilings, storefront finishes, flooring, casework, kitchen equipment, furniture, and Mechanical, Electrical and Plumbing infrastructure to support the future operations.

The Concourse B location (CB-04) repurposes the previous concept's kitchen. The space is equipped with all necessary utilities to support a full restaurant cookline, including a hood and grease duct. All existing utilities are approved for reuse as part of the Food Incubator Program.

The completion of the tenant improvement requires the existing closed-off storefront to be modified for passenger walk up service, including the addition of a service counter behind a new decorative storefront façade. A small seating area will also be created within the space.

The Central Terminal location (CT-02), formerly the Anthony's Grab and Go Fish Bar, 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.

These storefront façades are highly visible, prominent design features which will impact the overall aesthetic of the airport, especially within the Central Terminal.

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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.

Schedule

Activity

Notice to Proceed with Construction 2024 Quarter 4

In-use date 2025 Quarter 2

Cost Breakdown This Request Total Project

Preliminary Planning \$0 \$50,000

Design \$1,500,000 \$2,650,000

Construction \$4,350,000 \$4,350,000

Total \$5,850,000 \$7,050,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Leave Concourse B and the Central Terminal locations vacant and competitively bid the spaces for two (2) potential new ADR operators to lease.

Cost Implications: \$1,200,000 (committed cost used to- date)

Pros:

- (1) Remaining capital budget of \$4,350,000 could be saved.
- (2) Potential to receive greater proposed rent structures as part of the RFP process.

Cons:

- (1) Current design and permit development and submissions to date along with costs would be wasted. As noted above, \$1,200,000 has been committed to date.
- (2) The RFP process and project schedule for new leased space will take time and further delay the opening of these locations until approximately 2026.
- (3) Limits the number of opportunities for small businesses to operate individual locations within the airport.

This is not the recommended alternative.

Alternative 2 – Competitively bid the locations just for small business(es).

Cost Implications: \$1,200,000 (committed cost used to- date)

Pros:

- (1) A specific lease group just for small businesses would guarantee small business opportunity within the program.
- (2) Remaining capital budget of \$4,350,000 could be saved.

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Cons:

- (1) Design and construction costs for spaces have been identified as a barrier of entry for many small businesses especially those entering the airport for the first time.
- (2) Given the long lease term, this alternative would establish the same cadence of small business prospects as all locations within the ADR program limiting opportunities to every 10-12 years.
- (3) Current design and permit development and submissions to date along with costs would have to be expensed. As noted above, \$1,200,000 has been committed to date.

This is not the recommended alternative.

Alternative 3 – Build out the two ADR food incubator kiosk concepts . The Port will incur the cost for construction and maintenance for the food incubator kiosk concessionaire spaces.

Cost Implications: \$7,050,000 capital costs. Estimated annual maintenance costs of \$50k- \$150k.

Pros:

- (1) Provides increased accessibility into the ADR program for multiple small businesses to test their concepts in an airport environment due to the limited lease term and by removing the upfront costs associated with a full-scale design and construction process.
- (2) Enhances the passenger experience by expanding the widely successful kiosk program into the food and beverage category and diversifying the offering mix on a more consistent basis.
- (3) The project creates unique architectural interests in Concourse B and Central Terminal.

Cons:

- (1) The Port has limited experience in maintaining an operational tenant occupied space. As a result, the Port anticipates navigating various unknowns regarding the maintenance needs of the space having only limited lessons learned from the retail kiosk program to draw from.
- (2) Removes units from being bid as part of a larger RFP process and potentially securing a higher proposed rent structure.

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$5,500,000 \$0 \$5,500,000

Current change \$1,550,000 \$0 \$1,550,000

Revised estimate \$7,050,000 \$0 \$7,050,000

AUTHORIZATION

Previous authorizations \$1,200,000 \$0 \$1,200,000

Current request for authorization \$5,850,000 \$0 \$5,850,000

Total authorizations, including this request \$7,050,000 \$0 \$7,050,000

Remaining amount to be authorized \$0 \$0 \$0

Annual Budget Status and Source of Funds

This project was included in the 2024 – 2028 capital budget and plan of finance with a budget of \$5,500,000. The capital budget increase of \$1,500,000 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 revenue bonds.

Financial Analysis and Summary

Alternative 3 (Preferred)

Project cost for analysis \$7 million capital and \$50k-\$150k of annual expenses

Business Unit (BU) Commercial Management

Effect on business New additional non-aeronautical revenue will ramp up from performance approximately \$500k/year to \$1 million/year (based on estimated comparable sales from similar established tenants) in year 15.

With the Port taking on additional costs to reduce barriers to entry for these tenants, breakeven is extended to approximately 15-20 years.

NPV NPV is estimated to be positive based on 15-20 years of revenue generation.

CPE Impact N/A.

Future Revenues and Expenses (Total cost of ownership)

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New non-aeronautical revenues are estimated to be approximately \$500k (year 1) - \$1 million (year 15) based on annual escalation of 3%.

A service agreement for yearly maintenance of these spaces of approximately \$50,000 per year will be required after completion of the project. The financial analysis includes this amount with an annual increase of 6%.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 17, 2020 – Design Authorization.



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