



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT**

Item No.
12

Meeting Date: **AUGUST 4, 2011**

Subject:

Grant a Concession Lease to HG-CV-Epicure-Martinez San Diego, JV (a Joint Venture) for Development and Operation of Retail Package #2

Recommendation:

Adopt Resolution No. 2011-0092, awarding a concession lease to HG-CV-Epicure-Martinez San Diego, JV (A Joint Venture) for development and operation of Retail Package #2, as included in the Request for Proposals (RFP) for Food Service and Retail Concessions, for a maximum term of nine (9) years and four (4) months, which includes a period not to exceed twenty-eight (28) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations and a first year Minimum Annual Guarantee (MAG) of \$1,134,000 following completion of build out; and authorizing the President/CEO to take all necessary actions to execute the concession lease.

Background/Justification:

For the past three years, staff has been planning for a new concession program at San Diego International Airport (SDIA). The Concession Development Program (CDP) incorporates additional concession opportunities from the Terminal 2 West (Green Build) and Terminal 2 East expansion projects and the re-concepting of most existing locations beginning in December 2012. At its October 26, 2009 meeting, the Board was first informed of the CDP including the goals, objectives, and business strategy of the initiative. Staff further informed the Board of different concession management approaches and recommended a hybrid approach of multiple prime concessionaires with the option for direct leasing. At its November 4, 2010 meeting, staff updated the Board on the CDP Request for Proposals planning and business community outreach efforts. Finally, at its January 6, 2011 meeting, the Board was briefed on RFP packaging guidelines and concession locations in advance of the release of the RFP in February 2011.

On February 2, 2011, eight (8) food service and eight (8) retail concession packages were released via the CDP RFP. The CDP will expand from today's approximately 60,000 square feet to approximately 85,000 square feet of food service and retail space when completed. At full build-out in 2014, the number of food service and retail concession locations will increase from 55 today to up to 86.

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As previously briefed to the Board, the CDP RFP included the following goals and objectives:

- Diversity of concepts from local, regional, national, and international brands
- Encourage healthy competition
- Optimize concession revenues
- Capture the spirit of the San Diego region
- Create opportunities for local, small and Airport Concession Disadvantaged Business Enterprises (ACDBE)
- Maximize concession opportunities
- Provide an efficient operating environment
- Exceed passengers' expectations

Each package of the RFP required respondents to propose rent terms that included a fixed MAG and percentage rents of gross sales within a specified range. To ensure a diversity of concepts and encourage competition, the RFP also established the following limitations on the award of concession leases to a single proposer:

- 30% of food service square footage
- 35% of retail square footage
- 30% of total program square footage

Retail Package #2 Details

Retail Package #2 encompasses 20% of the total retail square footage. Retail Package #2 includes the following six locations and concept types:

Location	Square Footage	Concept
T2W-Core	702	Accessories
T2W-Core	1,738	Bookstore
T2W-East	1,351	Newsstand and Sundries
T1 Post-Security	966	Newsstand and Sundries
CT Post-Security	752	Newsstand and Sundries
CT Pre-Security	528	Newsstand and Sundries w/Gourmet Coffee
Total	6,037	

A map depicting the Retail Package #2 locations within the terminals is provided in Attachment 1.

The term of the concession lease includes up to 28 months to allow build out of all locations included in the Package (Package Completion), during which time, percentage rent shall be paid. After Package Completion, the MAG requirements set forth below shall apply.

Retail Package #2 included the following minimum requirements:

Minimum Investment in Fixed Improvements per Square Foot	\$300
Percentage Rent Range	13.00% to 17.00%
Minimum Annual Guarantee	
1st Annual Period	\$1,134,000
2nd Annual Period following Package Completion Date	90% of the actual rent paid to Authority during the first Annual Period, or 103% of the MAG for the first Annual Period, whichever is greater.
3rd through 7th Annual Periods	90% of the actual rent paid to Authority during the prior Annual Period, or 103% of the MAG for the prior Annual Period, whichever is greater.

Retail Package Proposals

On May 25, 2011, five proposals were received for Retail Package #2 from the following entities:

- Host –Nine Dragons, LLC (Host)
 - Proposed business entity is comprised of Host International, Inc. as prime concessionaire with a sublease to a joint venture comprised of Host International, Inc. (74% ownership) and Nine Dragons, Inc. (26% ownership)
- HG-CV-Epicure-Martinez San Diego JV (Hudson Group)
 - Proposed business entity is comprised of a joint venture between Hudson Group (HG) Retail, LLC (71% ownership), Concourse Ventures, Inc. (3% ownership), Epicure Group International, LLC (13% ownership) and Martinez Niebla, LLC (13% ownership)
- LS Travel Retail and Partners at SAN, LLC (LS Travel Retail)
 - Proposed business entity is comprised of a joint venture of LS Travel Retail North America (74% ownership) and P&P Services, LLC (26% ownership)

- PGC-PCI San Diego LLC (PGC-PCI) - Proposed business entity is comprised of a joint venture of Pacific Gateway Concessions, LLC (67% ownership) and Procurement Concepts, Inc. (33% ownership)
- Paradies-San Diego, LLC (Paradies) - Proposed business entity is comprised of a joint venture between The Paradies Shops, LLC (70% ownership) and CRS Sophisticated Solutions, Inc. (30% ownership)

A comparison of the proposed concepts associated with the six locations in Retail Package #2 is provided below:

Location	T2W-2072	T2W-2042	T2W-2002	T1E-2006	CTO-1010	CTO-1005
Square Feet	702	1,738	1,351	966	752	528
Proposer	Concepts					
Host	Sunglass Icon	Simply Books	San Diego Union Tribune	Sunset News	San Diego Union Tribune	San Diego Magazine News
Hudson Group	Sunglass Hut	Warwick's, Papyrus, etc.	Gaslamp Quarter News	Hudson News	Lindbergh News	San Diego Bay News and Café
LS Travel Retail	Sundial	Watermark	San Diego Union Tribune	Relay	San Diego Union Tribune	USA Today Travel Zone
PGC-PCI	Beach House	Bay Books	US News w/ Ryan's Bros Coffee	US News & World Report	KPBS News	WhereTraveler News
Paradies	Brighton Collectibles	The New York Times Bookstore	CNBC News San Diego	CNBC News San Diego	Channel 10 News	SANd News

Financial Offer

Proposer	Proposed Percentage Rent	Year One MAG
Host	17%	\$ 1,134,000
Hudson Group	17%	\$ 1,134,000
LS Travel Retail	17%	\$ 1,134,000
PGC PCI	17%	\$ 1,134,000
Paradies	17%	\$ 1,134,000

Evaluation Process

The Authority's evaluation panel was comprised of six panelists: (a) three Authority Division Vice Presidents, (b) one Authority Department Director, and (c) two airport concession program managers from San Francisco International and Seattle-Tacoma International Airports.

Proposals were evaluated using the following criteria and weighting factors:

Criteria	Weighting %
Company Background, Experience, Financial Capability and Financial Offer	35
Concept/Brand Development and Merchandise/Menus	20
Designs, Materials, and Capital Investment	15
Management, Staffing Plan, and Training	15
Operations and Maintenance Plan	10
Marketing and Promotions Plan	5

Additional consideration was given in the evaluation process for proposals that met or exceeded the Authority's standards for small business preference (Authority Policy 5.12) and worker retention (Board Resolution 2010-0142R).

The evaluation panel reviewed the five proposals using the above criteria and ranked the proposals from "1" (best suited) to "5" (least suited). The results of the rankings of each panel member (PM) are presented in the matrix below:

Proposer	PM1	PM2	PM3	PM4	PM5	PM6	Total
Host	5	5	4	3	3	5	25
Hudson Group	1	1	1	1	1	1	6
LS Travel Retail	4	3	3	4	4	4	22
PGC PCI	2	4	5	2	2	2	17
Paradies	3	2	2	5	5	3	20

The evaluation panel unanimously recommended that a concession lease be awarded to HG-CV-Epicure-Martinez San Diego, JV for development and operation of Retail Package #2 (as included in the Request for Proposals for Food Service and Retail Concessions) for a maximum term of nine (9) years and ten (10) months with a first year MAG of \$1,134,000.

Depictions of Hudson Group's concepts for this package are presented in Attachment 2.

Fiscal Impact:

Annual revenue for the Authority will be no less than the MAG amount of \$1,134,000 for Retail Package #2. In addition, based on the projected gross sales of the concessionaires, the Authority estimates that total CDP annual operating and maintenance costs (including operating costs for the Central Receiving and Distribution Center) will be recoverable from concessionaires.

Environmental Review:

- A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code §30106.

Equal Opportunity Program:

The Authority's small business program promotes the utilization of small, local, disadvantaged, and other business enterprises, on all contracts, to provide equal opportunity for qualified firms. By providing education programs, making resources available, and communicating through effective outreach, the Authority strives for diversity in all contracting opportunities.

The Authority has an Airport Concession Disadvantaged Business Enterprise ("ACDBE") Plan as required by the Department of Transportation, 49 CFR Part 23. The ACDBE Plan calls for the Authority to submit a triennial overall goal for ACDBE participation on all concession projects.

This solicitation is an airport concession opportunity; therefore, it will be applied toward the Authority's overall ACDBE goal. HG-CV-Epicure-Martinez San Diego, JV is proposing 26% ACDBE participation on this project.

Prepared by:

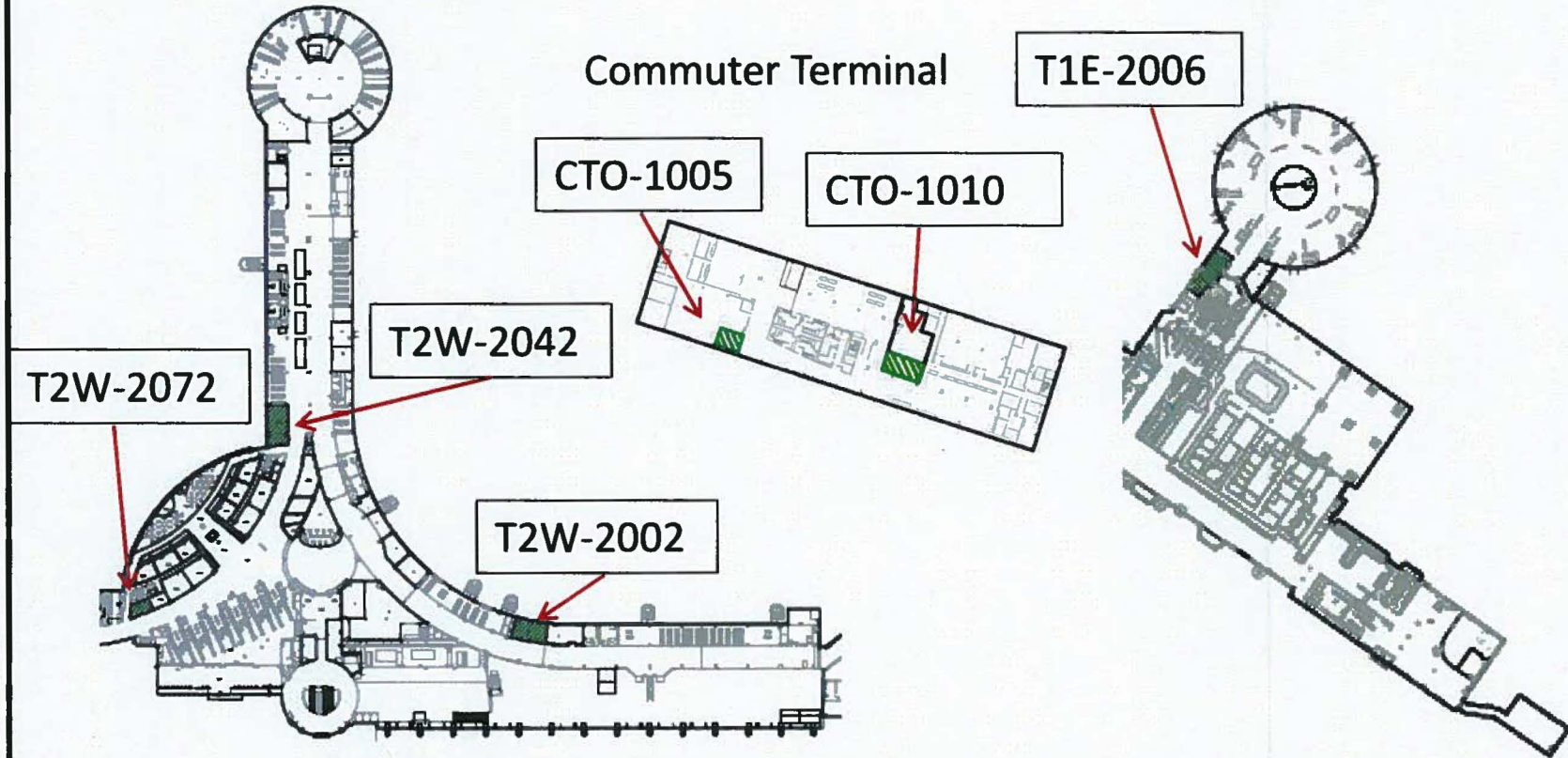
VERNON D. EVANS
VICE PRESIDENT, FINANCE/TREASURER

RETAIL PACKAGE 2

Terminal 2 West

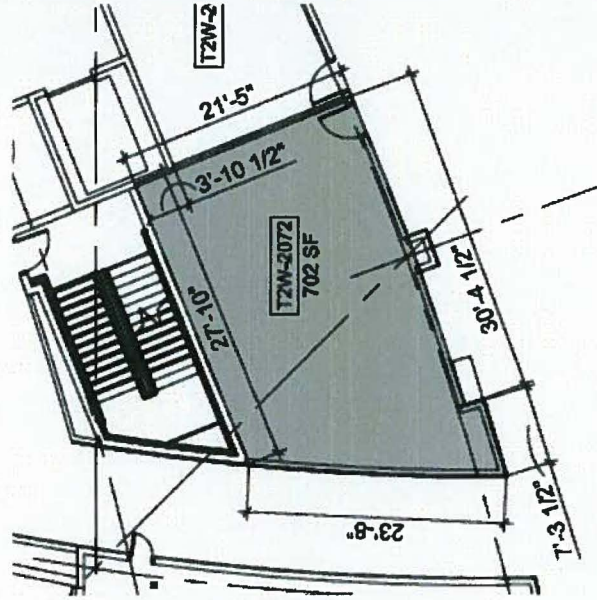
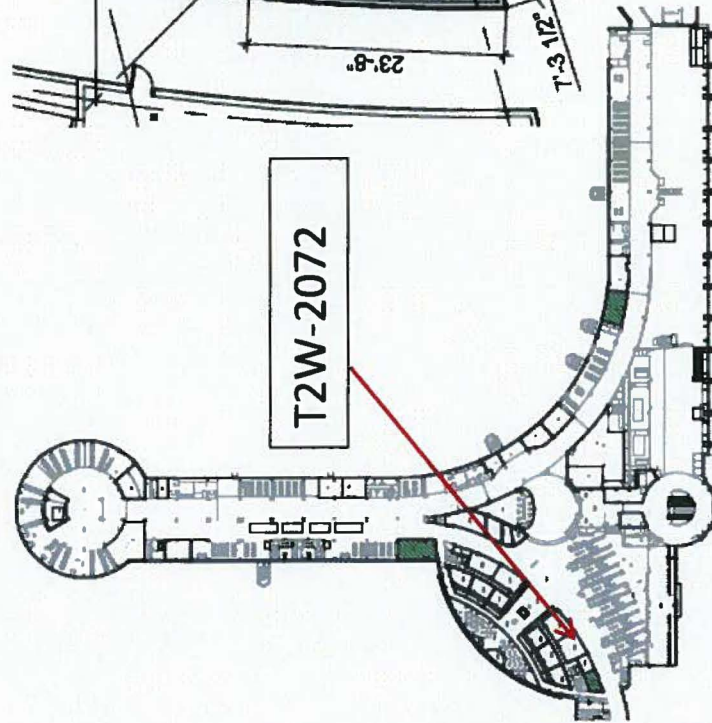
Terminal 1

Commuter Terminal



RETAIL PACKAGE 2 T2W-2072 – 702 SF sunglass hut

Terminal 2 West



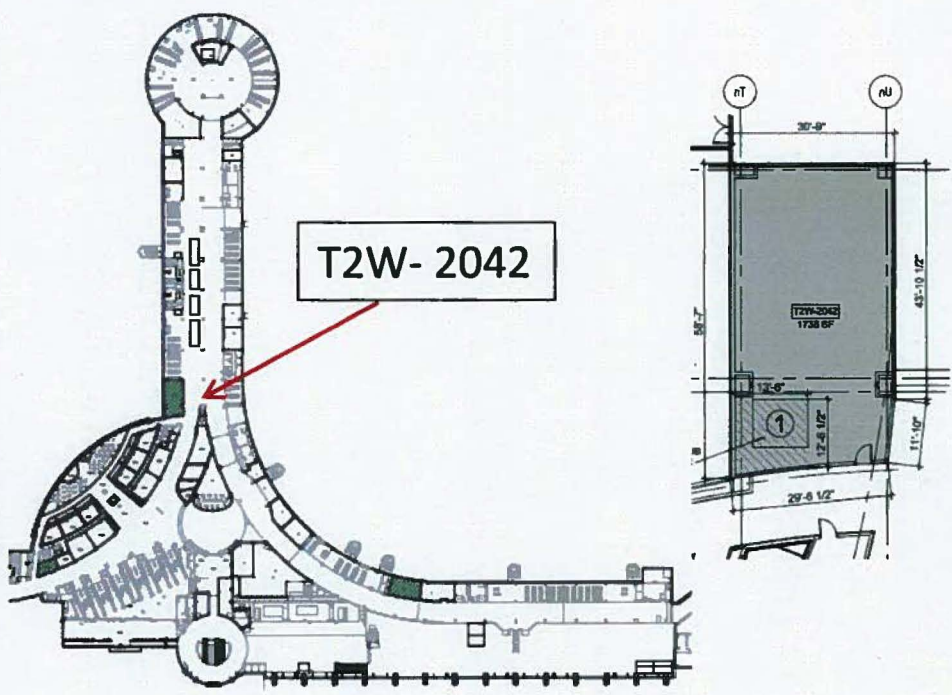
Retail Pkg 2: Hudson Group



RETAIL PACKAGE 2

T2W -2042 – 1738 SF

Terminal 2 West



Warwick's of La Jolla

PAPYRUS

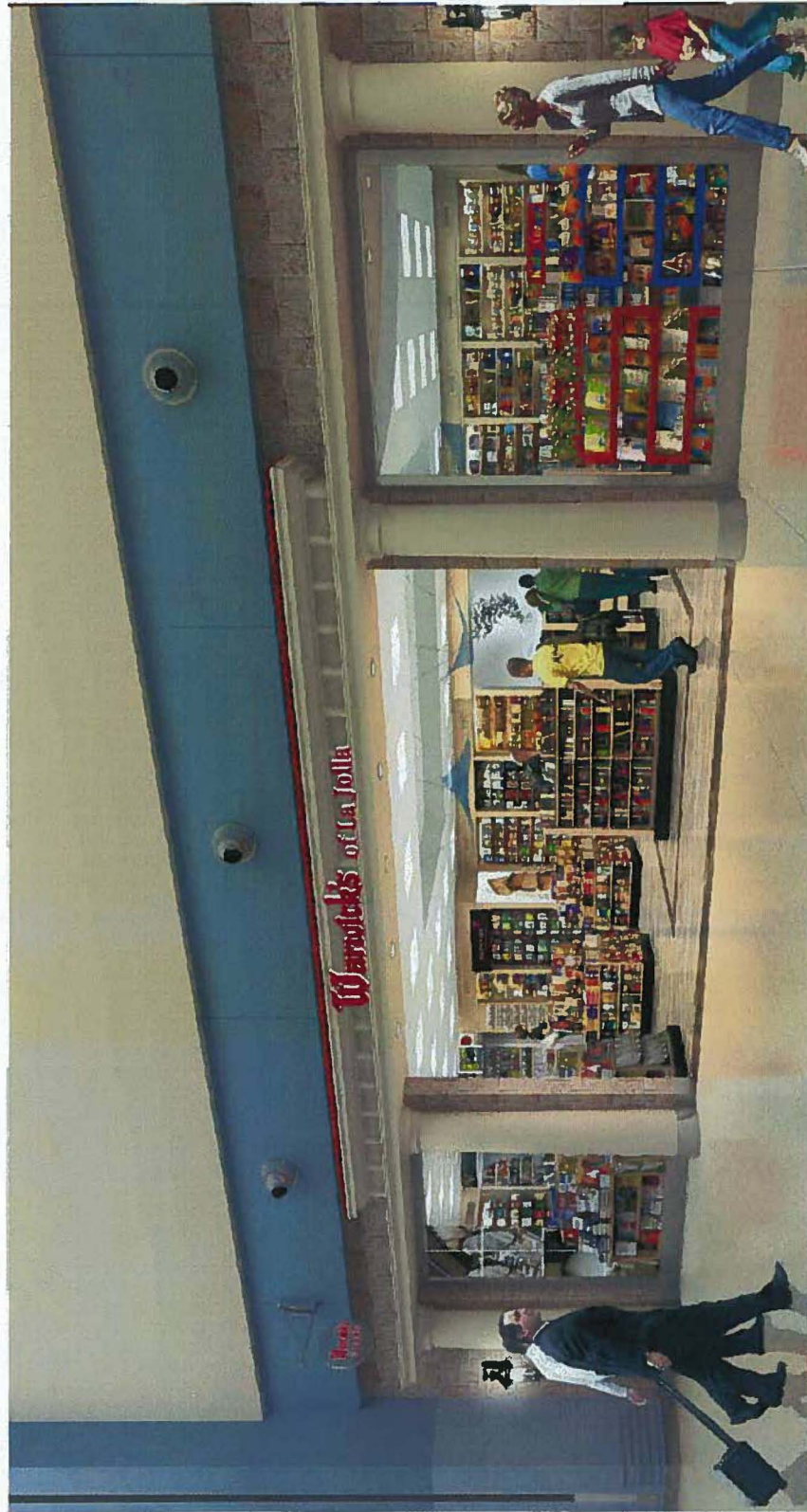
Kids Corner



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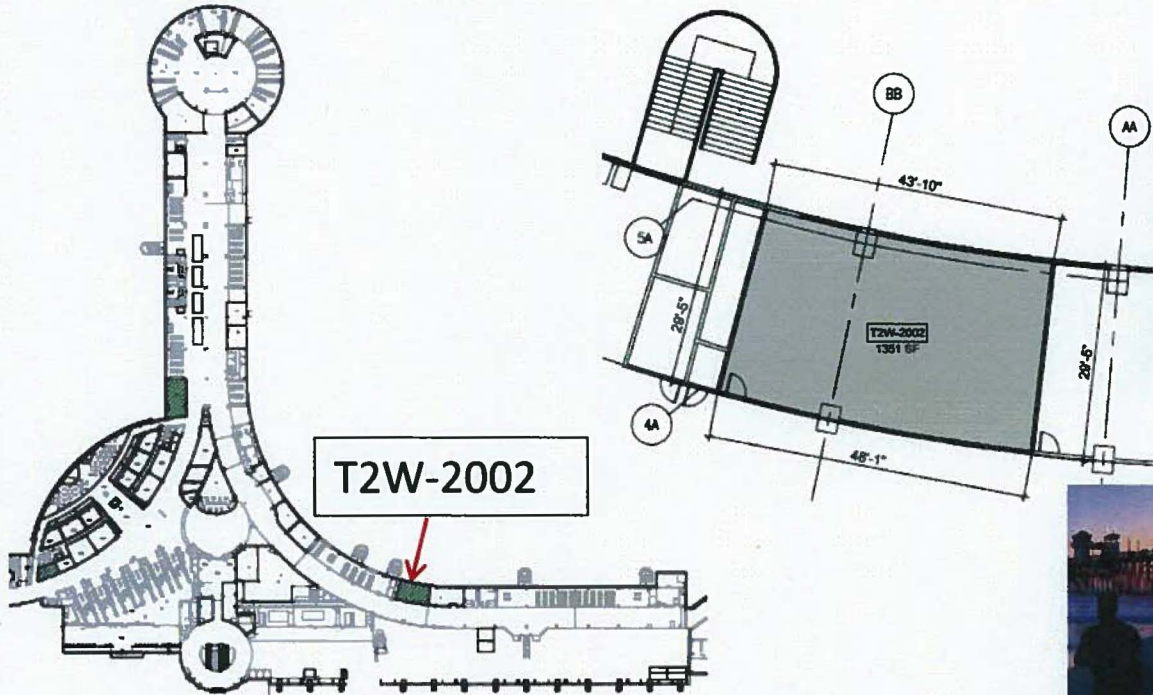


Retail Pkg 2: Hudson Group



RETAIL PACKAGE 2 T2W-2002 – 1351 SF

Terminal 2 West



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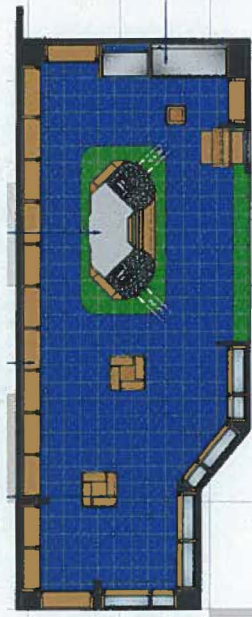
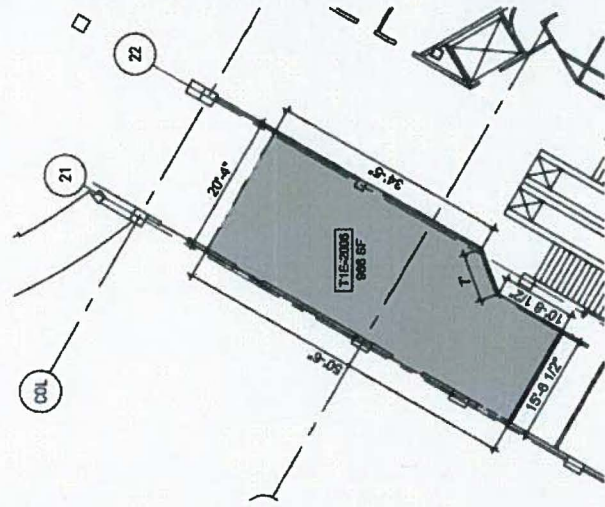
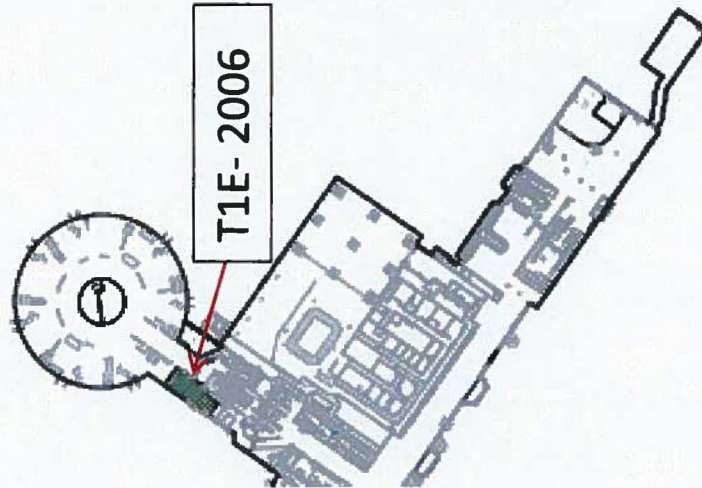
Retail Pkg 2: Hudson Group



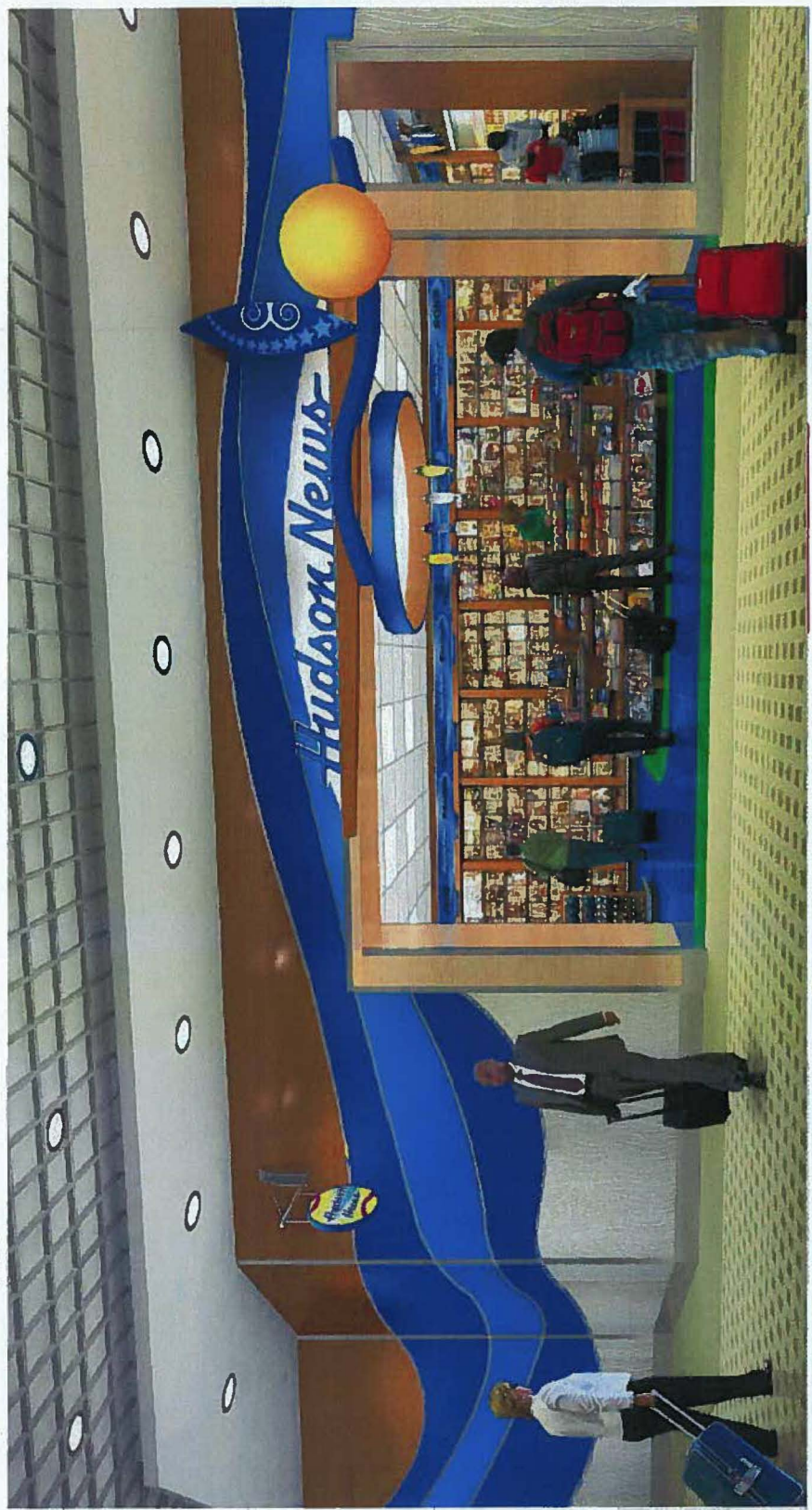
RETAIL PACKAGE 2 T1E-2006 – 966 SF

Hudson News

Terminal 1

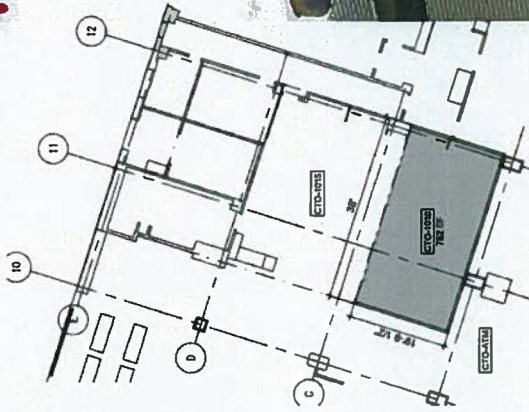
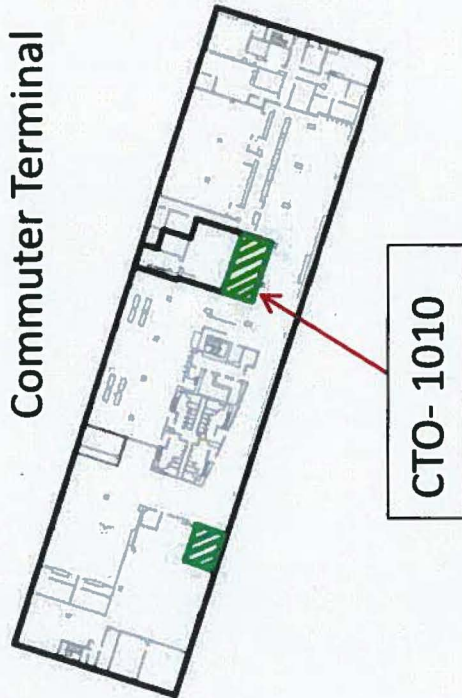


Retail Pkg 2: Hudson Group



RETAIL PACKAGE 2 CTO-1010 – 752 SF

Commuter Terminal



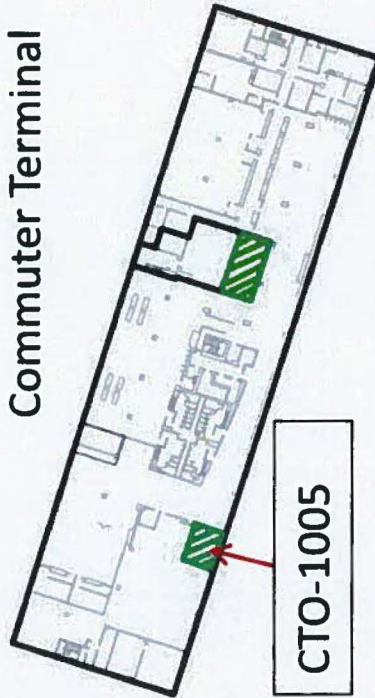
Retail Pkg 2: Hudson Group



RETAIL PACKAGE 2

CTO-1005 – 528 SF

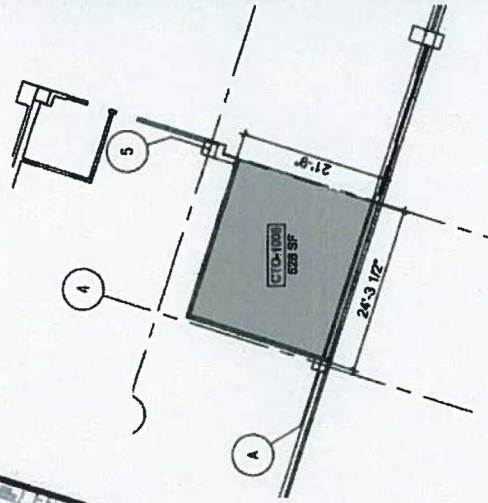
Commuter Terminal



CTO-1005

San Diego Bay
NEWS

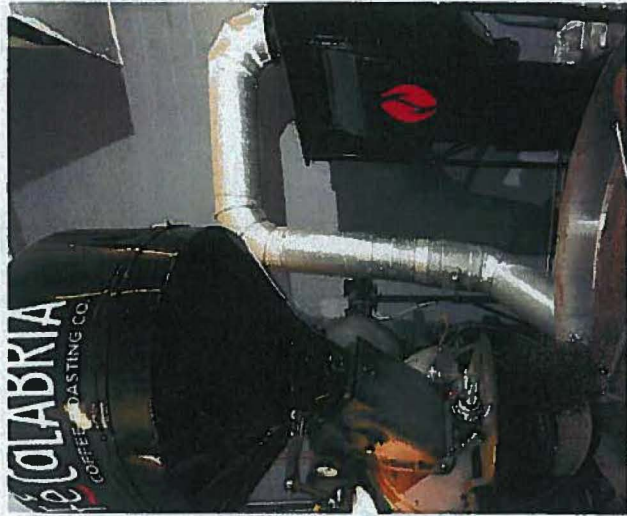
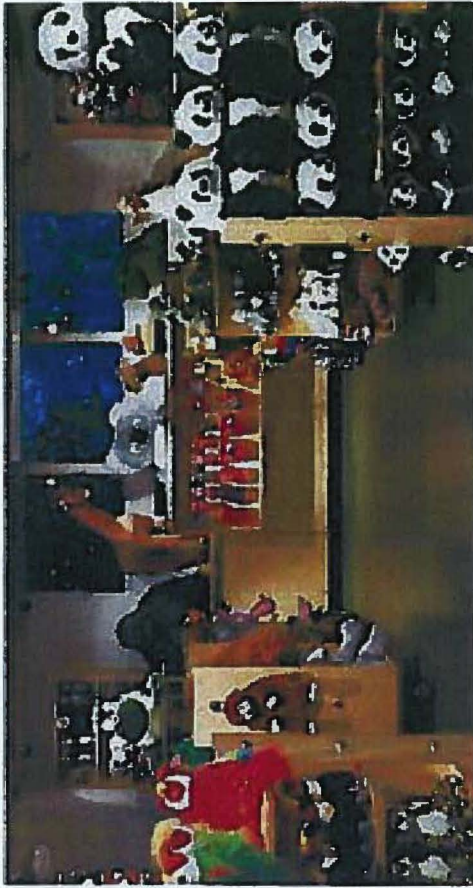
CNN NEWSSTAND



Retail Pkg 2: Hudson Group



San Diego Bay
NEWS



RESOLUTION NO. 2011-0092

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY, AWARDING A CONCESSION LEASE TO HG-CV-EPICURE-MARTINEZ SAN DIEGO, JV FOR DEVELOPMENT AND OPERATION OF RETAIL PACKAGE #2, AS INCLUDED IN THE REQUEST FOR PROPOSALS (RFP) FOR FOOD SERVICE AND RETAIL CONCESSIONS, FOR A MAXIMUM TERM OF NINE (9) YEARS AND FOUR (4) MONTHS, WHICH INCLUDES A PERIOD NOT TO EXCEED TWENTY-EIGHT (28) MONTHS TO ALLOW FOR BASE BUILDING CONSTRUCTION, AUTHORITY SHELL CONSTRUCTION AND RENOVATION, AND BUILD OUT OF THE CONCESSION LOCATIONS AND A FIRST YEAR MINIMUM ANNUAL GUARANTEE (MAG) OF \$1,134,000 FOLLOWING COMPLETION OF BUILD OUT; AND AUTHORIZING THE PRESIDENT/CEO TO TAKE ALL NECESSARY ACTIONS TO EXECUTE THE CONCESSION LEASE.

WHEREAS, for the past three years, staff has been planning to solicit responses via a Request for Proposal (RFP) for a new food service and retail concession program at San Diego International Airport; and

WHEREAS, the Concession Development Program (CDP) RFP provides for new concession locations from the Terminal 2 West (Green Build) and Terminal 2 East Expansion projects and complete re-concepting of existing locations, beginning in December 2012; and

WHEREAS, at its October 26, 2009 meeting, the Board was informed of the goals, objectives and business strategy of the CDP; and

WHEREAS, at its November 4, 2010 meeting, staff informed the Board of CDP RFP planning, involving business community outreach efforts; and

WHEREAS, at its January 6, 2011 meeting, the Board was briefed on RFP packaging guidelines and concession locations; and

WHEREAS, on February 2, 2011, the CDP RFP was released. The CDP RFP included eight food service packages totaling 46 locations and eight retail packages totaling 40 locations; and

WHEREAS, each package required respondents to propose a fixed Minimum Annual Guarantee and percentage rents within a specified range; and

WHEREAS, to ensure a diversity of concepts and encourage competition, the CDP RFP also established the following limitations on the award of concession leases to a single proposer:

- 30% of food service square footage
- 35% of retail square footage
- 30% of total program square footage; and

WHEREAS, Retail Package #2 includes six locations encompassing approximately 6,037 square feet; and

WHEREAS, on May 25, 2011 five proposals were received for Retail Package #2; and

WHEREAS, the proposers were evaluated by an evaluation panel using the following criteria:

- company background, experience, financial capability and financial offer;
- concept/brand development and merchandise/menus;
- design, materials and capital investment;
- management, staffing plan, and training;
- operations and maintenance plan; and
- and marketing and promotions plan; and

WHEREAS, additional consideration was given in the evaluation process for proposals that met or exceeded the required standards for small business participation and worker retention; and

WHEREAS, the evaluation panel reviewed the proposals and unanimously recommended that a concession lease be awarded to HG-CV-Epicure-Martinez San Diego, JV for development and operation of Retail Package #2 (as included in the CDP RFP) for a maximum term of nine (9) years and four (4) months (which includes a period not to exceed twenty-eight (28) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations (Package Completion)) with a first year Minimum Annual Guarantee (MAG) of \$1,134,000; and

WHEREAS, the Board finds that awarding a concession lease to HG-CV-Epicure-Martinez San Diego, JV is in the best interest of the Authority.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby AWARDS a concession lease to HG-CV-Epicure-Martinez San Diego, JV for development and operation of Retail Package #2, as included in the Request for Proposals (RFP) for Food Service and Retail Concessions, for a maximum term of nine (9) years and four (4) months, which includes a period not to exceed twenty-eight (28) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations and a first year Minimum Annual Guarantee (MAG) of \$1,134,000 following completion of build out; and AUTHORIZING the President/CEO to take all necessary actions to execute the concession lease.

BE IT FURTHER RESOLVED that the Board of the San Diego County Regional Airport Authority finds that this Board action is not a "project" as defined by the California Environmental Quality Act ("CEQA"), Pub. Res. Code §21065; and is not a "development" as defined by the California Coastal Act, Pub. Res. Code §30106.

PASSED, ADOPTED, AND APPROVED by the Board of the San Diego County Regional Airport Authority at a regular meeting this 4th day of August, 2011, by the following vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK

APPROVED AS TO FORM:

BRETON K. LOBNER
GENERAL COUNSEL

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