



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

**Item No.
19**

Meeting Date: **AUGUST 4, 2011**

Subject:

Grant a Concession Lease to Host International, Inc. for Development and Operation of Food Service Package #1

Recommendation:

Adopt Resolution No. 2011-0099, awarding a concession lease to Host International, Inc. for development and operation of Food Service Package #1, as included in the Request for Proposals (RFP) for Food Service and Retail Concessions, for a maximum term of twelve (12) years and ten (10) months, which includes a period not to exceed thirty-four (34) 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 \$988,100 following completion of build out; and authorizes 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

On May 25, 2011, a combined total of 48 responsive proposals for food service and retail packages was received from 20 business entities. However, four of the food service packages included in the CDP RFP either did not receive any proposals or received only one proposal. Interviews were conducted with several proposers who submitted responsive food service proposals to determine aspects of those four packages that may have caused the low number of proposals. Based on their input staff changed certain elements of the four packages. A new RFP covering the revised four packages (Supplemental RFP) was released on July 12, 2011. Only pre-qualified entities that submitted proposals during the initial CDP RFP process were eligible to submit proposals under the Supplemental RFP. Proposals for the Supplemental RFP were due on July 26, 2011. Recommendations for awards are planned to be presented for Board consideration on September 1, 2011.

Food Service Package #1 Details

Food Service Package #1 encompasses 18% of the total food service square footage. Food Service Package #1 includes the following six locations and concept types:

Location	Square Footage	Concept
T2W Pre-Security	268	Snack Food
T2W-Core	703	Food Court-Hamburger
T2W-Core	6,267	Casual Dining Restaurant
T2E Post-Security	779	Food Court-Italian
T1 Pre-Security	348	Gourmet Coffee w/ Baked Goods
T1 Post-Security	1,889	Bar with Food
Total	10,254	

A map depicting the Food Service Package #1 locations within the terminals is provided in Attachment 1.

The term of the concession lease includes up to 34 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.

Food Service Package #1 included the following minimum requirements:

Minimum Investment in Fixed Improvements per Square Foot	\$350	
Percentage Rent Range	Food/ Non-Alcohol	13.0% to 16.0%
	Alcohol	16.0% to 20.0%
Minimum Annual Guarantee		
1st Annual Period	\$988,100	
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 10th 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.	

Food Service Package #1 Proposals

On May 25, 2011, two proposals were received for Food Service Package #1 from the following entities:

- Diego Concession Group, LLC (DCG) - Proposed business entity is comprised of Diego Concession Group as prime concessionaire with Hojeij Brand Foods, Inc. and Foodmaker, Inc. as sublessees.
- Host International, Inc. (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. (65% ownership) and Concession Management Services, Inc. (35% ownership).

A comparison of the proposed concepts associated with the six locations in Food Service Package #1 is provided below:

Location	T2W-1020	T2W-2060	T2W-2088 ¹	T2E-2045	T1E-1048	T1E-1002
Square Feet	268	703	6267	779	348	1,889
Proposer	Concepts					
DCG	Freshens Yogurt	Jack in the Box	Mission: Green Foods	Villa Pizza	Abica Coffee	Diegos Gastropub
Host	Ciao	Stack Shack	12 th Fairway Bar and Grill	California Pizza Kitchen	Great American Bagel	Craft Brews on 30th St.

¹ Note: During the course of the evaluation period, an architectural change in the T2 West Expansion (Green Build) design allowed for the square footage of this location to increase by approximately 1,700 square feet. As a result, both proposers were offered an opportunity to propose an alternate concept that would be more compatible with the larger footprint. Both proposers subsequently submitted the concepts depicted above.

Financial Offer

Proposer	Proposed Percentage Rent	Year One MAG
DCG	15.5% Food/Non-Alcoholic Beverage 18.5% Alcohol	\$988,100
Host	13% Food/Non-Alcoholic Beverage 16% Alcohol	\$988,100

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 established in the RFP:

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 proposals from DCG and Host using the above criteria and ranked the proposals as either "1" (best suited) or "2" (next best 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	1	1	1	1	1	1	6
DCG	2	2	2	2	2	2	12

The evaluation panel unanimously recommended that a concession lease be awarded to Host International for development and operation of Food Service Package #1 (as included in the Request for Proposals for Food Service and Retail Concessions) for a maximum term of twelve (12) years and ten (10) months with a first year MAG of \$988,100.

Depictions of Host'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 \$988,100 for Food Service Package #1. 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.

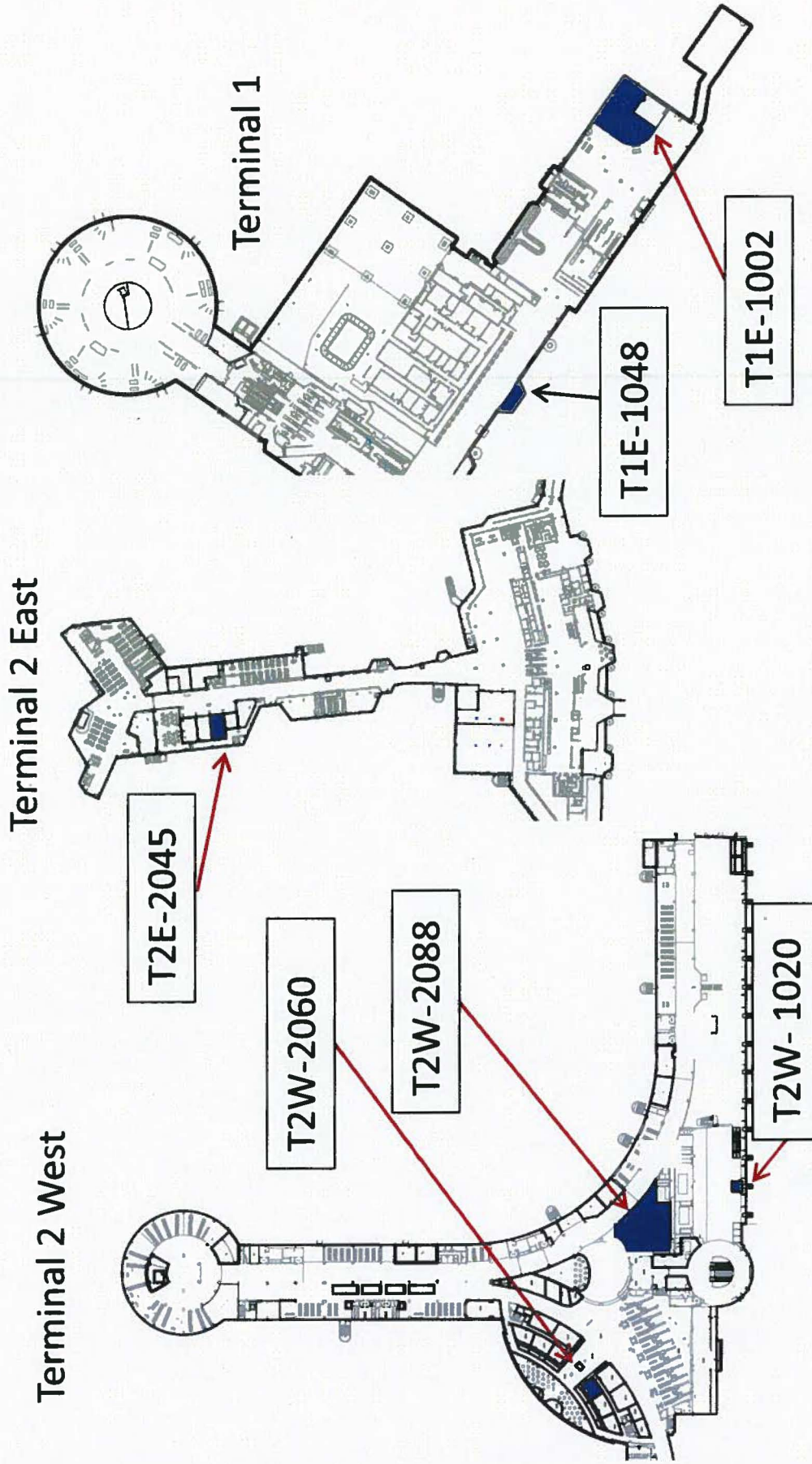
The Authority has an Airport Concession Disadvantaged Business Enterprise ("ACDBE") Plan as required by the Department of Transportation, 49 CFR Part 23. The ACDBE Plan calls for the Authority to submit a triennial overall goal for ACDBE participation on all concession projects.

This solicitation is an airport concession opportunity; therefore, it will be applied toward the Authority's overall ACDBE goal. Host International, Inc. is proposing 35% ACDBE participation on this project.

Prepared by:

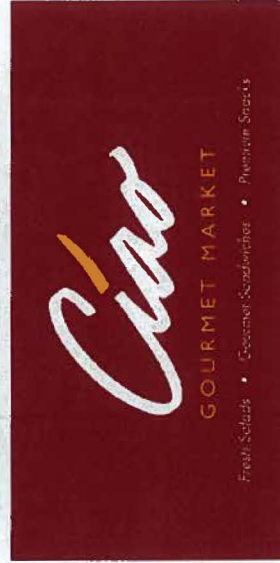
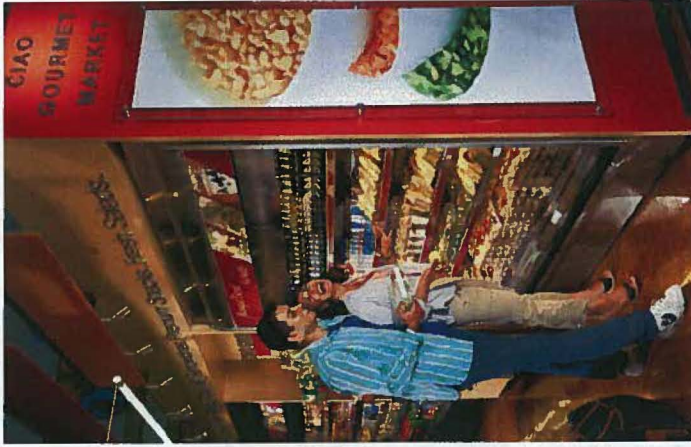
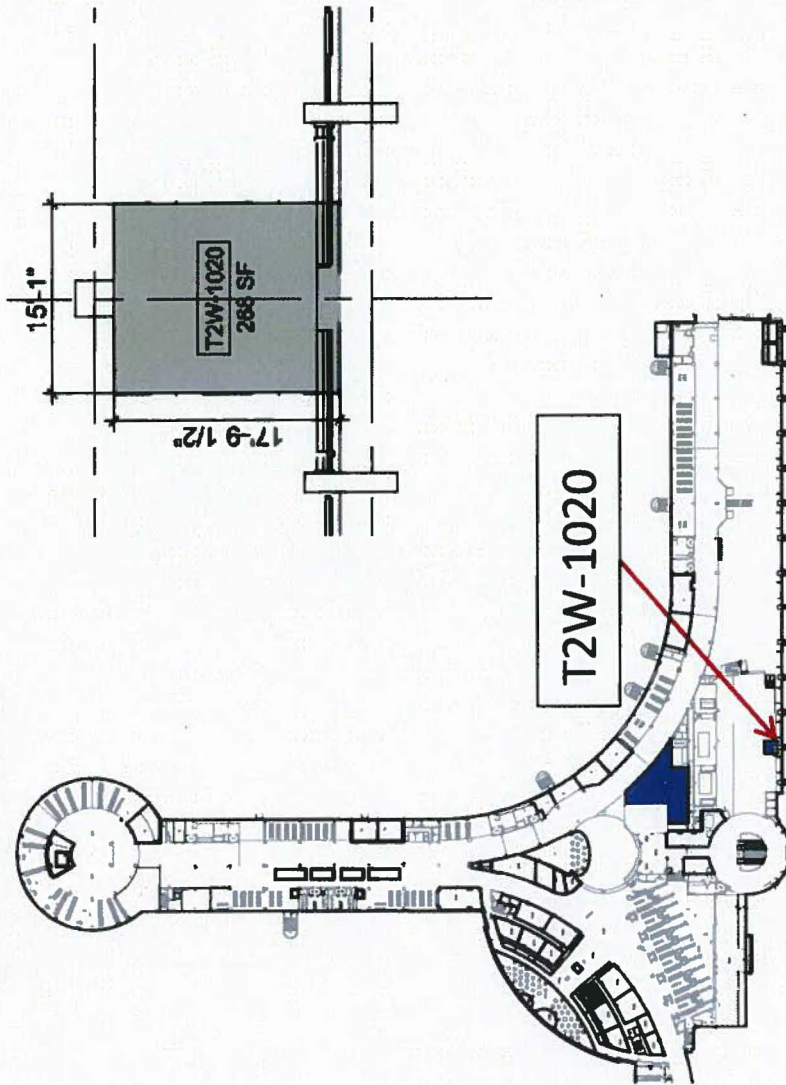
VERNON D. EVANS
VICE PRESIDENT, FINANCE/TREASURER

FOOD SERVICE PACKAGE 1



FOOD SERVICE PACKAGE 1 - T2W-1020 - 268 SF

Terminal 2 West



Food Pkg 1: HMS Host

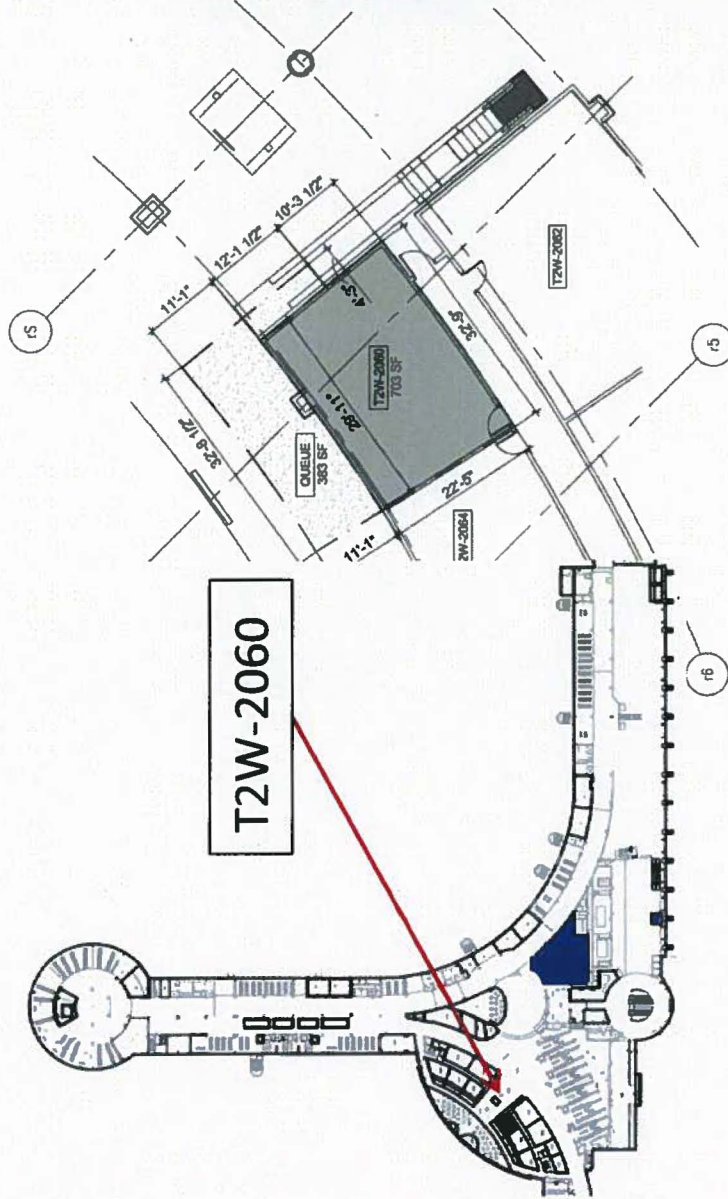


FOOD SERVICE PACKAGE 1 - T2W-2060 – 703 SF

Terminal 2 West



gourmet burgers & sliders



T2W-2060

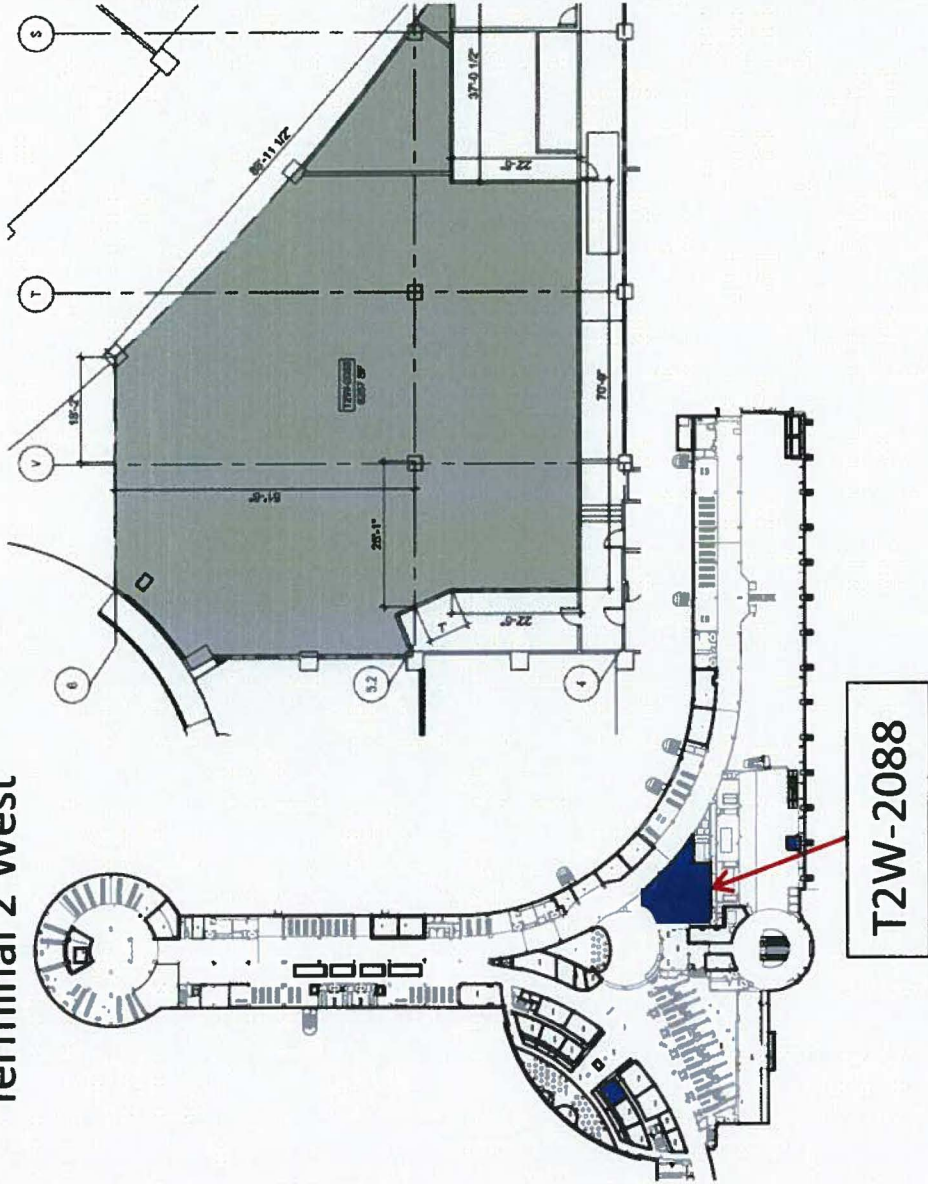


Food Pkg 1: HMS Host



FOOD SERVICE PACKAGE 1 - T2W-2088 - 6267 SF

Terminal 2 West



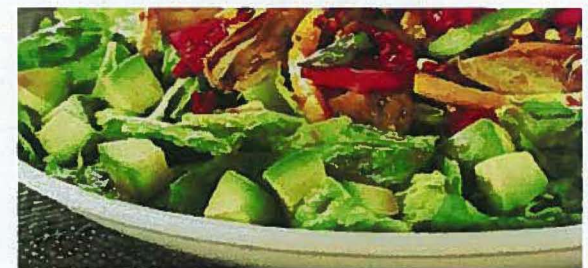
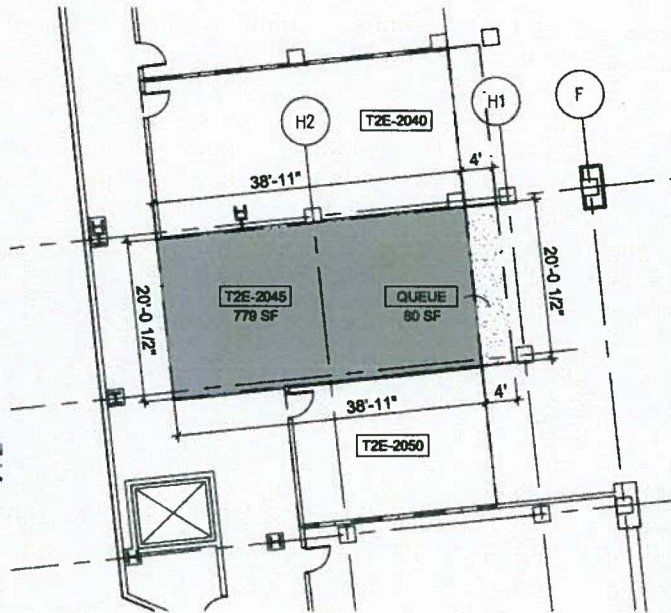
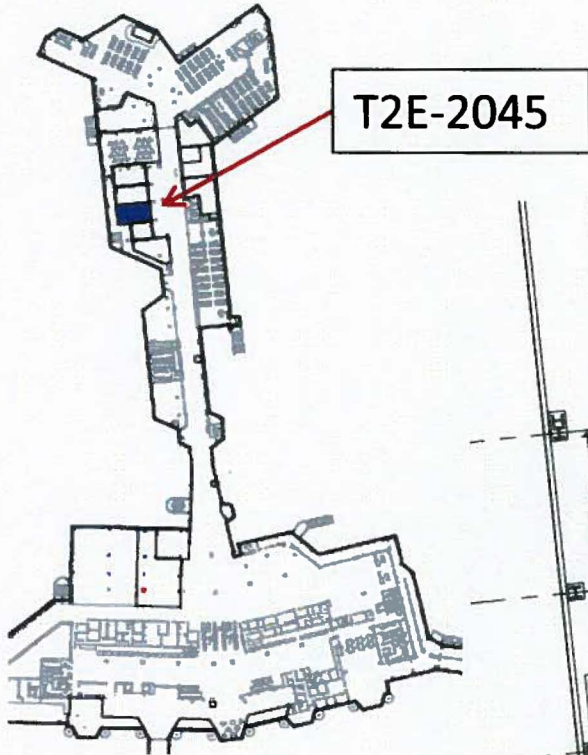
Food Pkg 1: HMS Host



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FOOD SERVICE PACKAGE 1 - T2E-2045 – 779 SF

Terminal 2 East

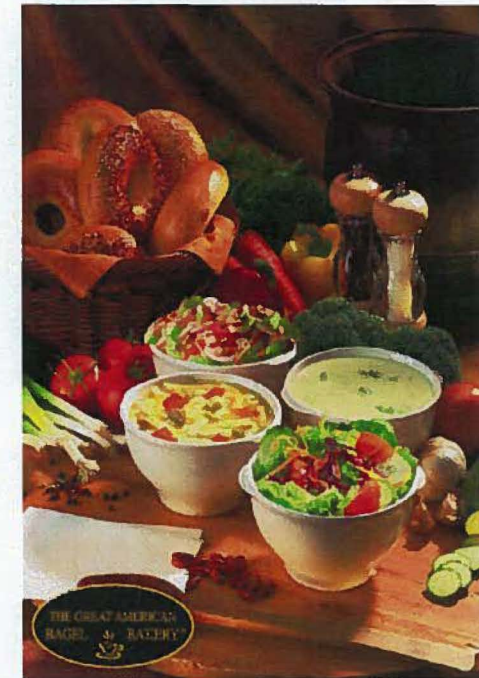
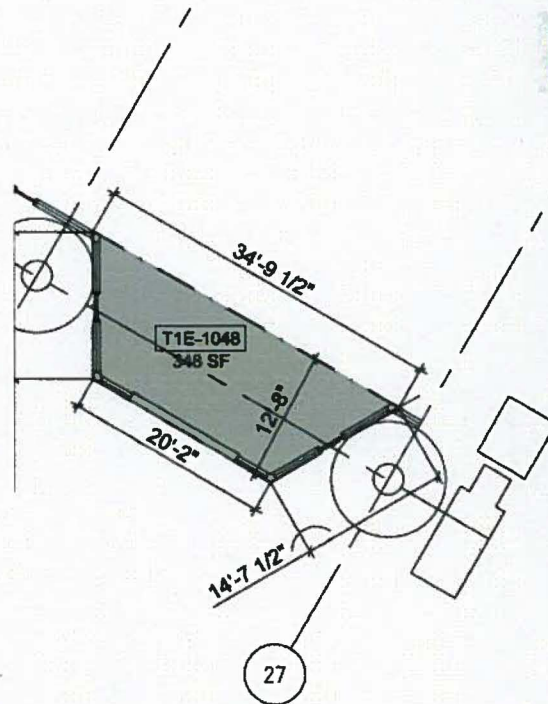
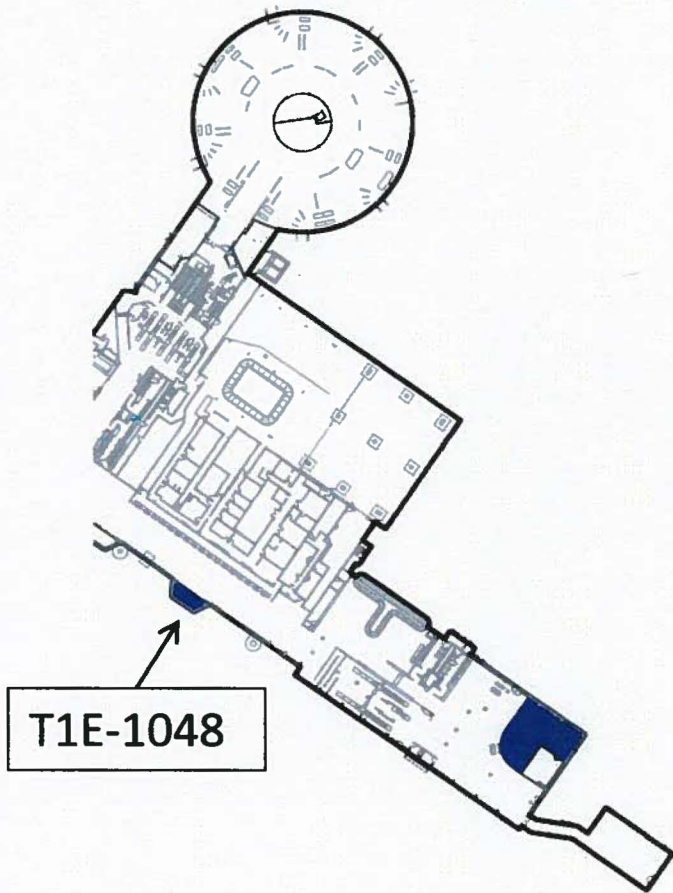


Food Pkg 1: HMS Host



FOOD SERVICE PACKAGE 1 - T1E-1048 – 348 SF

Terminal 1 East side



Food Pkg 1: HMS Host

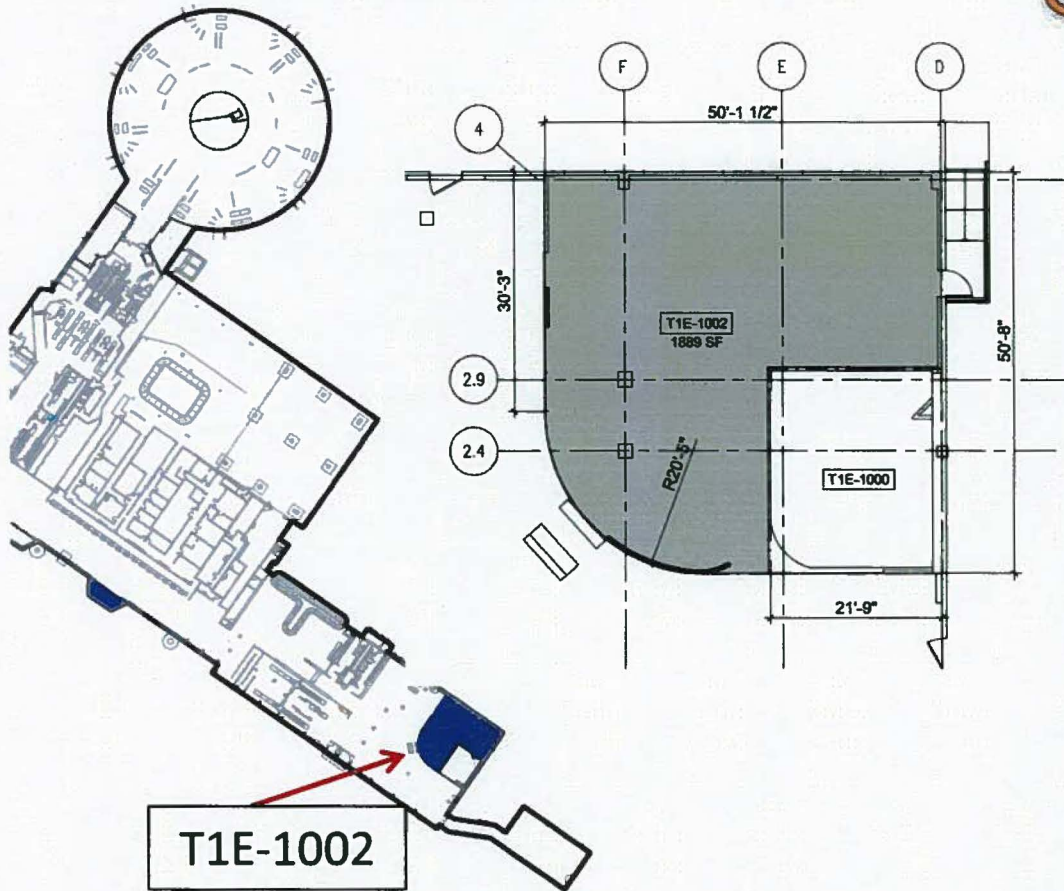


FOOD SERVICE PACKAGE 1 - T1E-1002 – 1889 SF

Terminal 1 East side

CRAFT BREWS

30TH STREET



000251



Food Pkg 1: HMS Host



RESOLUTION NO. 2011-0099

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY AWARDING A CONCESSION LEASE TO HOST INTERNATIONAL, INC. FOR DEVELOPMENT AND OPERATION OF FOOD SERVICE PACKAGE #1 AS INCLUDED IN THE REQUEST FOR PROPOSALS FOR FOOD SERVICE AND RETAIL CONCESSIONS, FOR A MAXIMUM TERM OF TWELVE (12) YEARS AND TEN (10) MONTHS, WHICH INCLUDES A PERIOD NOT TO EXCEED THIRTY-FOUR (34) 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 \$988,100 FOLLOWING COMPLETION OF BUILD OUT; AND AUTHORIZES 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, Food Service Package #1 includes six locations encompassing approximately 10,254 square feet; and

WHEREAS, on May 25, 2011 two proposals were received for Food Service Package #1; 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 Host International, Inc. for development and operation of Food Service Package #1 (as included in the CDP RFP) for a maximum term of twelve (12) years and ten (10) months (which includes a period not to exceed thirty-four (34) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations (Package Completion)) and a first year Minimum Annual Guarantee (MAG) of \$988,100 following Package Completion; and

WHEREAS, the Board finds that awarding a concession lease to Host International, Inc. is in the best interest of the Authority.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby AWARDS a concession lease to Host International, Inc. for development and operation of Food Service Package #1 as included in the Request for Proposals for Food Service and Retail Concessions, for a maximum term of twelve (12) years and ten (10) months, which includes a period not to exceed thirty-four (34) 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 \$988,100 following completion of build out; and AUTHORIZES the President/CEO to take all necessary actions to execute the concession lease; and

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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