



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

**Item No.  
25**

Meeting Date: **SEPTEMBER 6, 2012**

**Subject:**

**Rescind Resolution No. 2012-0018 Granting a 10-Year Lease to Airport Lounge Development, Inc. to Design, Build and Operate an Airport Lounge in Terminal 2 East at San Diego International Airport, Waiving Authority Policy 6.01, and Granting a 10-Year Lease to Swissport Lounge, LLC to Design, Build, and Operate an Airport Lounge in Terminal 2 East at San Diego International Airport.**

**Recommendation:**

Adopt Resolution No. 2012-0102, rescinding Resolution No. 2012-0018, granting a 10-year Lease to Airport Lounge Development, Inc. to design, build, and operate an airport lounge in Terminal 2 East at San Diego International Airport, waiving Authority Policy 6.01, and granting a Lease to Swissport Lounge, LLC to design, build, and operate an Airport Lounge in Terminal 2 East at San Diego International Airport with a first year Minimum Annual Guarantee (MAG) of \$150,000, subject to Federal Aviation Administration (FAA) approval of term and authorizing the President/CEO to take all necessary actions to execute the concession lease.

**Background/Justification:**

Over the past two years, staff has been discussing future plans for the American Airlines (American) Admiral's Club with American and its code share partner British Airways (BA). The discussions have centered on the June 30, 2013, expiration of the agreement covering the Admiral's Club (see Attachment 1) and the Authority's desire to redevelop the space for concession uses. Although the Authority has offered replacement space, American and BA indicated that neither company is interested in financing the development of a new club in San Diego at this time and both requested that the Authority engage a third party to develop and operate a common use lounge that also could be used by American and BA passengers.

In March 2011, staff released a Request for Qualifications (RFQ) to design, build, and operate a common use lounge in Terminal 2 East at San Diego International Airport. Statements of Qualifications (SOQs) were received from Airport Lounge Development, Inc. (ALD) and Latitude Lounge Corporation dba Airspace Lounge (Airspace Lounge), both of which were determined to be qualified to proceed to the Request for Proposals (RFP) process.

After collaborating with American and BA on lounge specifications, the RFP was released in October 2011 to ALD and Airspace Lounge to develop and operate a 5,100 square foot lounge in Terminal 2 East (see Attachment 2).

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On February 9, 2012, the Board supported the RFP evaluation panel's recommendation and adopted Resolution No. 2012-0018, authorizing the President/CEO to take all necessary steps to grant a 10-year lease to ALD to design, build, and operate an airport lounge in Terminal 2 East. However, in April 2012, ALD notified the Authority that it was unable to execute the lease due to its inability to reach agreement with American and BA regarding the terms of a service agreement.

As a result, staff began discussions with Airspace Lounge (the second ranked proposer) regarding this opportunity. To mitigate any concern for Airspace Lounge's ability to reach agreement with American on a service agreement, staff required and has received an executed Letter of Intent between American and Airspace Lounge documenting their agreement on the general terms of a lounge agreement between the two companies. In addition, Airspace Lounge agreed to honor its financial and capital investment proposals from the RFP:

Minimum Annual Guarantee (MAG)	\$150,000; subject to annual adjustments equal to the greater of (i) 90% of the actual rent paid to Authority during the prior annual period, or (ii) 103% of the MAG for the prior annual period
Percentage Rent	Food/Beverage and Entry Fees – 12% Alcoholic Beverages – 15%
Minimum Capital Investment	\$200 per square foot of leased area

Since the submittal of its RFP proposal, Airspace Lounge's assets have been purchased by Swissport Lounge, LLC, a subsidiary of Swissport USA, Inc. Swissport Lounge, LLC did not participate in either the RFQ or the RFP. As a result, staff began negotiations directly with Swissport Lounge LLC regarding this opportunity.

Board Policy 6.01 states, in part, as follows:

The Authority shall grant leases of real property on a competitive basis to the prospective tenant that in the opinion of the Authority: (1) proposes a development or utilization that fulfills Authority land use and development criteria for the property; (2) demonstrates an economically feasible program that will produce a market value rental return to the Authority over the term of the lease; and (3) possesses the financial capacity and managerial ability to develop and maintain the property at its highest and best use over the term of the lease.

Given that: (1) this business opportunity was widely publicized allowing all interested parties to submit their qualifications for consideration and staff believes that all known commercial lounge operators either proposed or declined to propose on the RFP; (2) staff believes that the issuance of a new RFP or RFQ will not result in additional or different proposals or submittals; (3) as a result of negotiations, Swissport Lounge, LLC will honor the financial proposal made by Airspace Lounge in its RFP proposal; and (4) the business model and management team proposed by Airspace Lounge will be used by Swissport Lounge, LLC, staff is requesting that the Board waive Board Policy 6.01 and grant a 10-year lease to Swissport Lounge, LLC to design, build, and operate an airport lounge in Terminal 2 East.

**Fiscal Impact:**

Annual revenue for the Authority will be no less than the \$150,000 proposed by Swissport Lounge, LLC. The airport lounge shell space construction is part of the Capital Improvement Program; Project #104056 – Expand Terminal 2 East Facilities. Proposed tenant improvement costs, to be paid by Swissport Lounge, LLC, range from \$1.2 million to \$1.6 million.

**Authority Strategies:**

This item supports one or more of the Authority Strategies, as follows:

Community Strategy     Customer Strategy     Employee Strategy     Financial Strategy     Operations Strategy

**Environmental Review:**

- A. This Board action is for a component of the Terminal 2 East project that was determined to be a class of project not to have a significant effect on the environment (Section 15301, Existing Facilities – Class 1) and a categorical exemption was prepared in accordance with the California Environmental Quality Act (CEQA).
- B. This Board action is for a component of the Terminal 2 East project for which the California Coastal Commission issued a Notice of Permit Waiver Effectiveness (Waiver Number 6-11-036-W) effective on July 14, 2011 in accordance with the California Coastal Act.

**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.

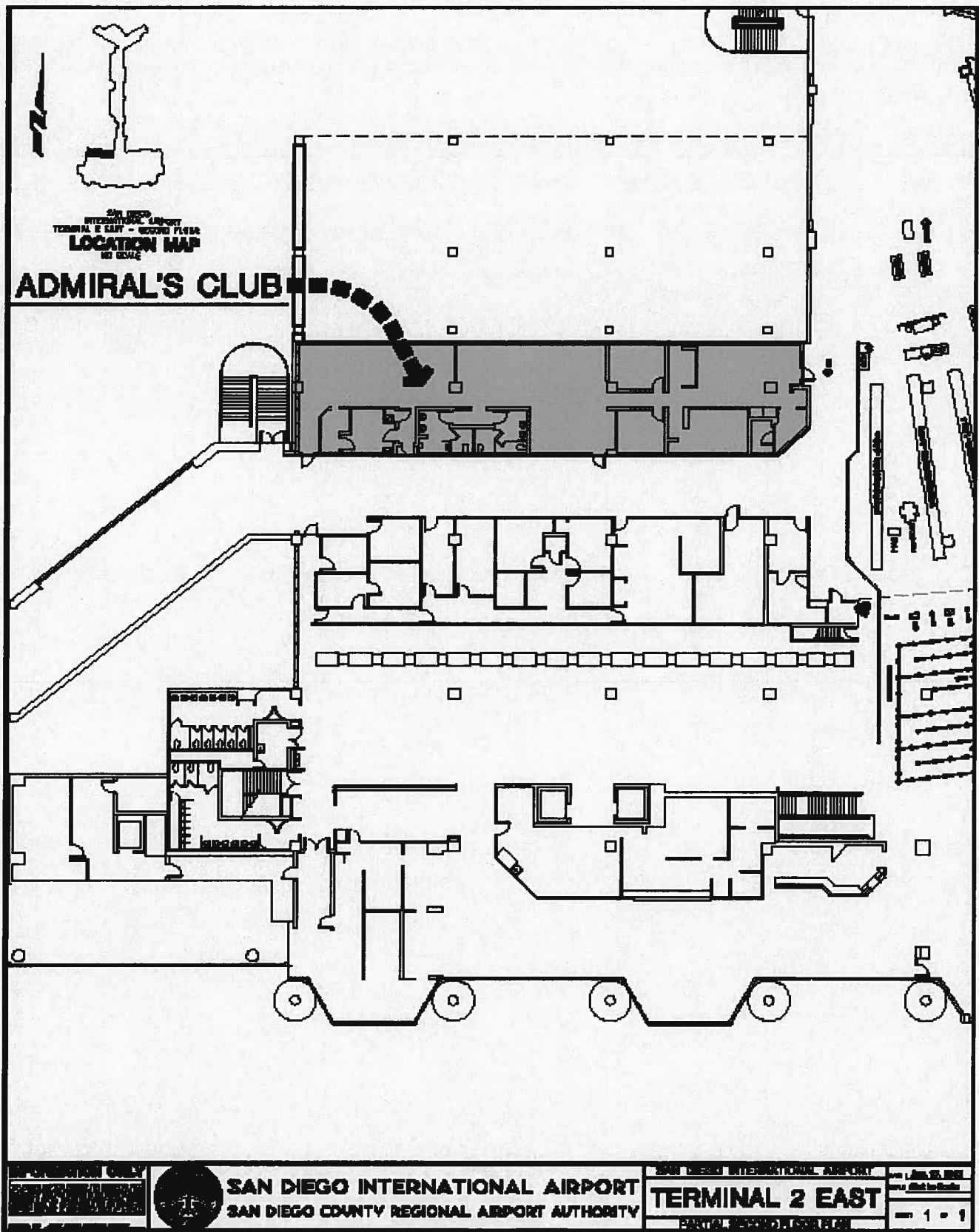
This solicitation is an airport concession opportunity; therefore, it will be applied toward the Authority's overall ACDBE goal. Swissport Lounge, LLC is proposing 0% ACDBE participation on this project.

The term of this agreement exceeds five years and per Section 23.75 of 49 Code of Federal Regulations, Part 23, this concession is categorized as a "long-term-exclusive concession agreement" and must be approved by the Federal Aviation Administration (FAA). The Board's award of this contract is subject to the condition that the FAA approve the 10-year term of the contract.

**Prepared by:**

VERNON D. EVANS  
VICE PRESIDENT, FINANCE

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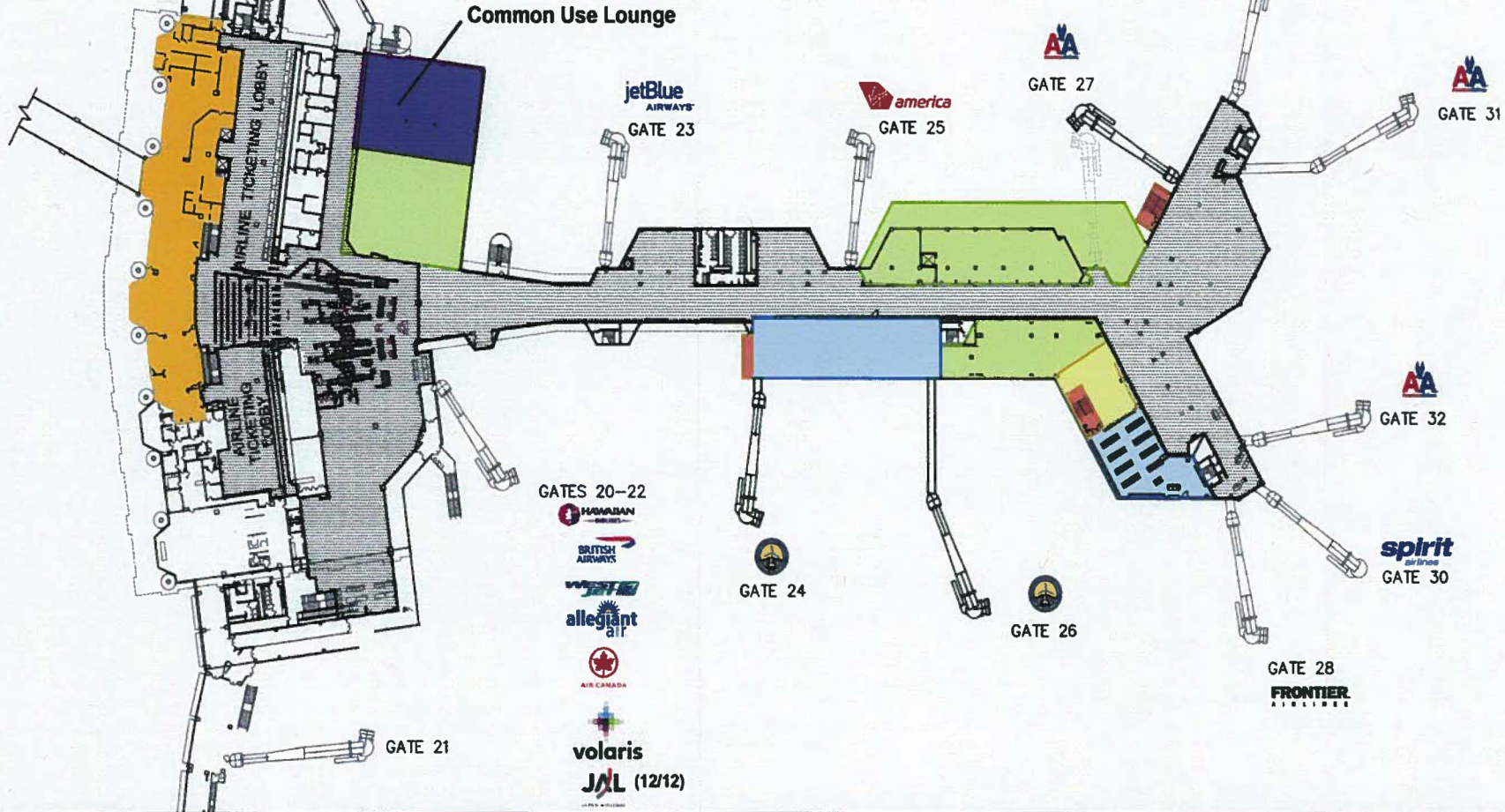


ATTACHMENT # 1

### TERMINAL 2 EAST EXPANSION PROJECT

LEGEND:

- CONCESSIONS
- NEW RESTROOMS
- COMMON USE LOUNGE
- EXIT STAIRS
- HOLD ROOM
- REPLACE FLOORING



INFORMATION ONLY

THIS PLAN IS FOR INFORMATION ONLY AND IS NOT TO BE USED FOR CONSTRUCTION OR OTHER PURPOSES WITHOUT THE WRITTEN APPROVAL OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY. THE AUTHORITY ASSUMES NO LIABILITY FOR ANY ERRORS OR OMISSIONS IN THIS PLAN.



**SAN DIEGO INTERNATIONAL AIRPORT**  
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

DATE: A. VILLALBA  
REVISION: S. IYAS

SAN DIEGO INTERNATIONAL AIRPORT  
**TERMINAL 2 EAST EXPANSION**  
GATE ALLOCATION - JUNE/DECEMBER 2012

DATE: 8/21/12  
BY: MTS  
**ATTACHMENT 2**

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RESOLUTION NO. 2012-0102

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY, RESCINDING RESOLUTION NO. 2012-0018, GRANTING A 10-YEAR LEASE TO AIRPORT LOUNGE DEVELOPMENT, INC. TO DESIGN, BUILD, AND OPERATE AN AIRPORT LOUNGE IN TERMINAL 2 EAST AT SAN DIEGO INTERNATIONAL AIRPORT, WAIVING AUTHORITY POLICY 6.01, AND GRANTING A LEASE TO SWISSPORT LOUNGE LLC TO DESIGN, BUILD, AND OPERATE AN AIRPORT LOUNGE IN TERMINAL 2 EAST AT SAN DIEGO INTERNATIONAL AIRPORT, WITH A FIRST YEAR MINIMUM ANNUAL GUARANTEE (MAG) OF \$150,000, SUBJECT TO FEDERAL AVIATION ADMINISTRATION (FAA) APPROVAL OF TERM AND AUTHORIZING THE PRESIDENT/CEO TO TAKE ALL NECESSARY ACTIONS TO EXECUTE THE CONCESSION LEASE

WHEREAS, over the past two years, staff has been discussing future plans for the American Airlines (American) Admiral's Club located in Terminal 2 at San Diego International Airport ("SDIA") with American and its code share partner British Airways ("BA") ; and

WHEREAS, discussions have centered on the June 30, 2013, expiration of the agreement covering the Admiral's Club space and the Authority's desire to redevelop the space for concession uses; and

WHEREAS, although the Authority offered replacement space, American and BA indicated neither is interested in financing the development of a new club in San Diego at this time, and both requested that the Authority engage a third party to develop and operate a common use lounge for use by American and BA passengers; and

WHEREAS, in March 2011, staff released a Request for Qualifications (RFQ) to design, build, and operate a common use lounge at SDIA; and

WHEREAS, Statements of Qualifications ("SOQ") were received from Airport Lounge Development, Inc. ("ALD") and Latitude Lounge Corporation dba Airspace Lounge ("Airspace Lounge") both of which were determined to be qualified to proceed to the Request for Proposals ("RFP") process; and

WHEREAS, in October 2011, after collaborating with American and BA on lounge specifications, the RFP was released to ALD and Airspace Lounge to design, build, and operate a 5,100 square foot lounge in Terminal 2 East; and

WHEREAS, on February 9, 2012, the Board supported the RFP evaluation panel recommendation and adopted Resolution No. 2012-0018 authorizing the President/CEO to take all necessary steps to grant a lease to ALD to design, build, and operate a common use lounge in Terminal 2; and

WHEREAS, in April 2012, ALD notified the Authority it was unable to execute the lease; and

WHEREAS, as a result of ALD's declining to execute the lease, staff began discussions with Airspace Lounge regarding the lounge opportunity; and

WHEREAS, to mitigate any concern for Airspace Lounge's ability to reach agreement with American for a service agreement, staff required and has received an executed Letter of Intent between American and Airspace Lounge indicating agreement to the general terms of the lounge service agreement among the parties; and

WHEREAS, Airspace Lounge agreed to honor its financial and capital investment proposal from the RFP; and

WHEREAS, since the submittal of its RFP proposal, Airspace Lounge's assets have been purchased by Swissport Lounge, LLC, a subsidiary of Swissport USA, Inc.; and

WHEREAS, Swissport Lounge, LLC did not participate in either the RFP or RFQ and as a result, staff began negotiations directly with Swissport Lounge LLC regarding the opportunity to design, build and operate a common use lounge; and

WHEREAS, Authority Policy 6.01 states that leases of real property shall be granted on a competitive basis; and

WHEREAS, given that: (1) this business opportunity was widely publicized allowing all interested parties to submit their qualifications for consideration and staff believes that all known commercial lounge operators either proposed or declined to propose on the RFP; (2) staff believes that the issuance of a new RFP or RFQ will not result in additional or different proposals; (3) as a result of negotiations, Swissport Lounge, LLC will honor the financial proposal made by Airspace Lounge in its RFP Proposal; and (4) the business model and management team proposed by Airspace Lounge will be used by Swissport Lounge, LLC, staff requests that Board Policy 6.01 be waived.

**NOW, THEREFORE, BE IT RESOLVED** that the Board rescinds Resolution No. 2012-0018 authorizing the President/CEO to grant a Concession Lease to Airport Lounge Development, Inc. to design, build, and operate an Airport Lounge in Terminal 2 East at San Diego International Airport; and

**BE IT FURTHER RESOLVED** that the Board finds that: (1) after Airspace Lounge submitted its proposal in response to the Authority's RFP, all of Airspace Lounge's assets were bought by Swissport Lounge, LLC; (2) this business opportunity was widely publicized allowing all interested parties to submit qualifications for consideration and it is believed that all known commercial lounge operators either proposed or declined to propose on the RFP; (3) the issuance of a new RFP or RFQ will not result in additional or different proposals; (4) as a result of negotiations, Swissport Lounge, LLC will honor the financial proposal made by Airspace Lounge in its RFP Proposal; and (5) the business model and management team proposed by Airspace Lounge will be used by Swissport Lounge, LLC; and

**BE IT FURTHER RESOLVED** that based upon the findings set forth herein, the Board waives Authority Policy 6.01 requiring leases of real property be awarded on a competitive basis; and

**BE IT FURTHER RESOLVED** that, subject to approval by the FAA, the Board grants a 10-year Concession Lease to Swissport Lounge LLC D/B/A Airspace Lounge to design, build, and operate a common use Airport Lounge in Terminal 2 East at San Diego International Airport, and authorize the President/CEO to take all necessary actions to execute the concession lease; and

**BE IT FURTHER RESOLVED** that the Board determines that this action is subject to the condition that the Federal Aviation Administration (FAA) first approve the term of this contract; and

**BE IT FURTHER RESOLVED** that the Board finds that this Board action is for a project determined not to have a significant effect on the environment (Section 15301, Existing Facilities – Class 1) and a categorical exemption was prepared in accordance with the California Environmental Quality Act; and the California Coastal Commission issued a Notice of Permit Waiver Effectiveness (Waiver Number 6-11-036-W) effective on July 14, 2011 in accordance with the California Coastal Act.



**PASSED, ADOPTED, AND APPROVED** by the Board of the San Diego County Regional Airport Authority at a special meeting this 6th day of September, 2012, by the following vote:

**AYES:** Board Members:

**NOES:** Board Members:

**ABSENT:** Board Members:

**ATTEST:**

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**TONY R. RUSSELL**  
**DIRECTOR, CORPORATE SERVICES/  
AUTHORITY CLERK**

**APPROVED AS TO FORM:**

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**BRETON K. LOBNER**  
**GENERAL COUNSEL**

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# San Diego County Regional Airport Authority

**Rescind Resolution No. 2012-0018 Granting a 10-Year Lease to Airport Lounge Development, Inc. to Design, Build and Operate an Airport Lounge in Terminal 2 East at San Diego International Airport, Waiving Authority Policy 6.01, and Granting a 10-Year Lease to Swissport Lounge, LLC to Design, Build, and Operate an Airport Lounge in Terminal 2 East at San Diego International Airport**

Vernon D. Evans, CPA  
Vice President, Finance/Treasurer

Nyle Marmion  
Manager, Concession Development

September 6, 2012

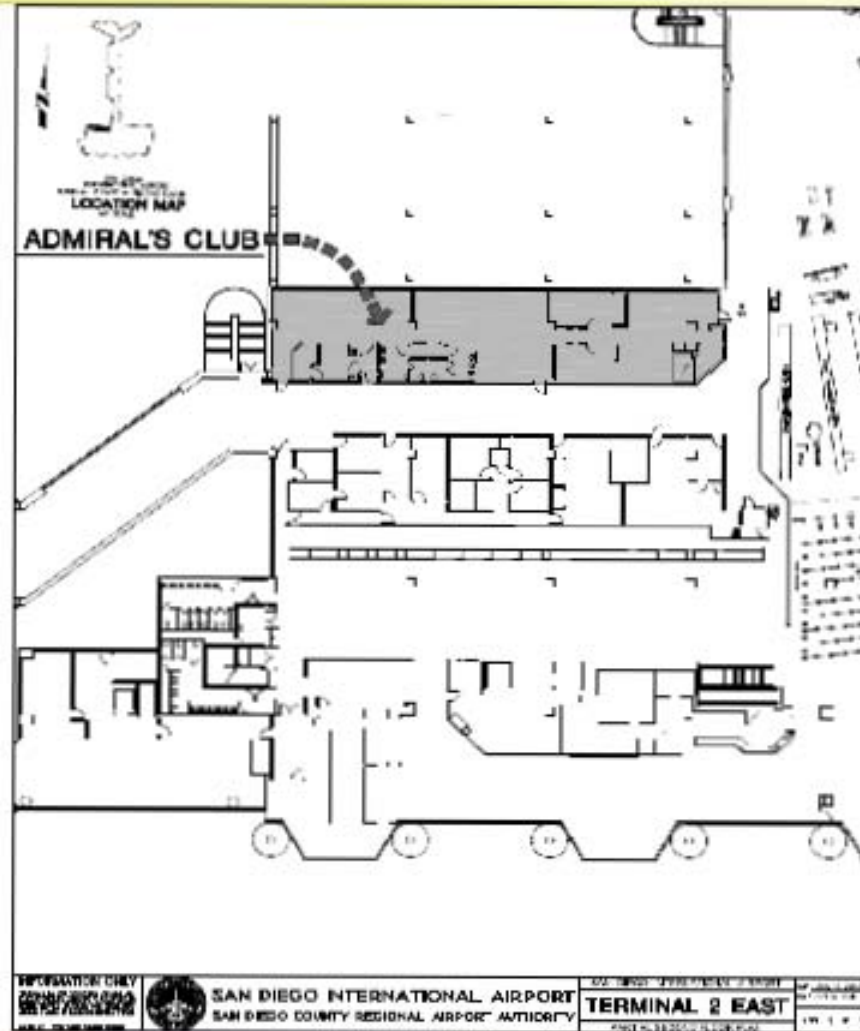


# Background

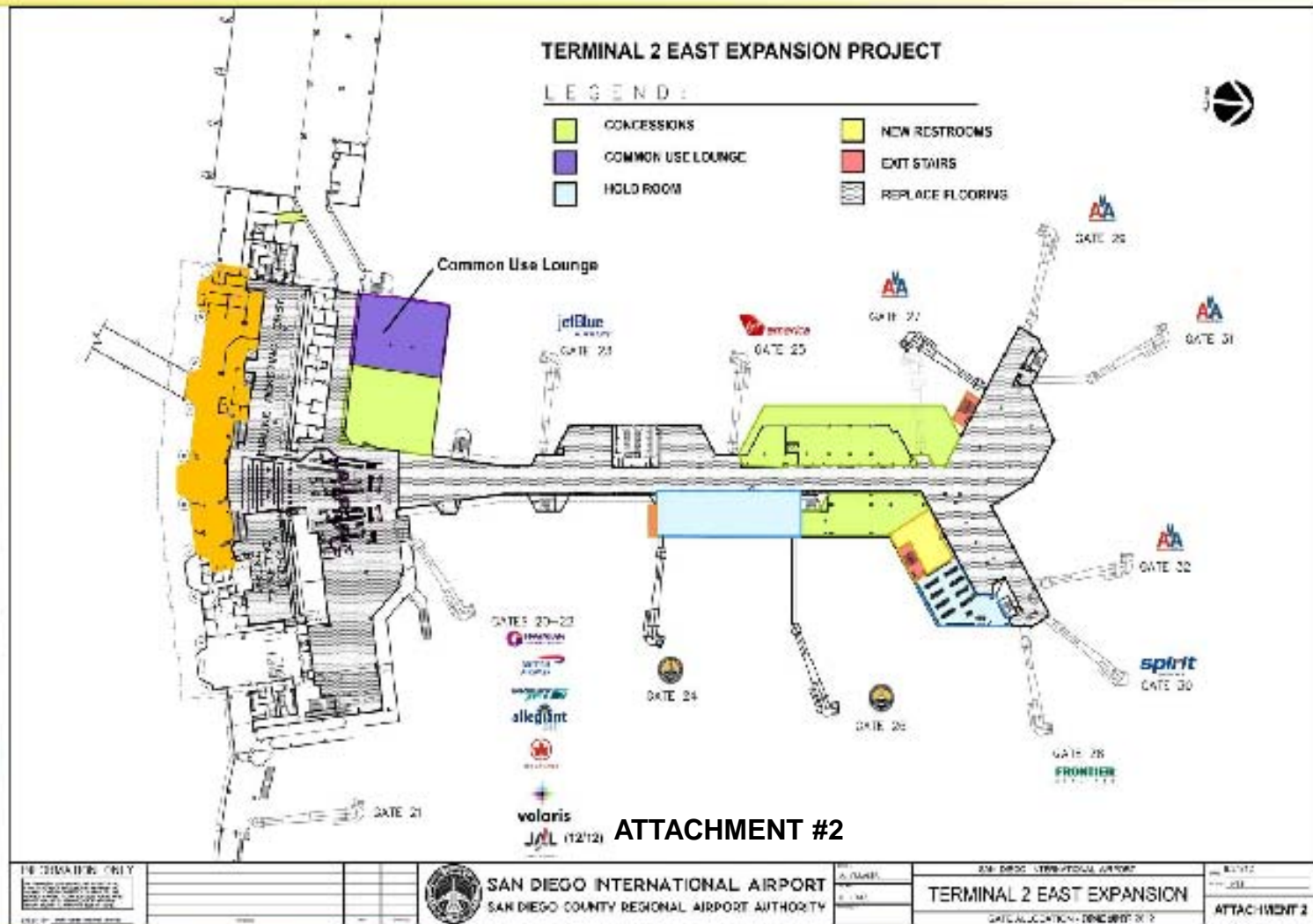
- Status of Existing Admiral's Club
- Discussions with American Airlines/British Airways
- Common Use Lounge Option



# Location Map



# Site Plan



# Timeline

- Mar 2011 Request for Qualifications Released
- Apr 2011 Two Statement of Qualifications Received from:
- Airport Lounge Development, Inc. (ALD)
  - Latitude Lounge Corporation dba Airspace (Airspace Lounge)
- Oct 2011 Request for Proposals Released to ALD and Airspace
- Dec 2011 Proposals Received from ALD and Airspace
- Feb 2012 Board awards Airport Lounge lease to ALD
- Apr 2012
- ALD Notifies Staff that its Unable to Execute Lease
  - Staff Begins Discussions with Airspace Lounge
  - Airspace Lounge Informs Staff its Assets Purchased by Swissport Lounge, LLC
- Aug 2012 Letter of Intent Received



# Board Policy 6.01

The Authority shall grant leases of real property on a competitive basis to the prospective tenant that in the opinion of the Authority:

1. proposes a development or utilization that fulfills Authority land use and development criteria for the property;
2. demonstrates an economically feasible program that will produce a market value rental return of the Authority over the term of the lease; and
3. possesses the financial capacity and managerial ability to develop and maintain the property at its highest and best use over the term of the lease.



# Conceptual Layout





# Proposed Renderings

Airspace SAN/ Concept View of Bar Area



AIRSPACE

# Proposed Renderings

Airspace SAN/ Concept View of Dining & Banquette

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GLAZED ELOI WINDOW

INTEGRATED TV DISPLAYS

ENTRANCE PORTAL

MIRROR WALL FINISH  
BEHIND BUFFET SHELFING

SOLID PARTWORK TO  
CEILING AND WALLS

TOILET WALL



CENTRAL SEATING AREA INCORPORATING  
SLIM PROFILE AND COMFORT WITH  
DIRECT ACCESSIBILITY

WOODEN BANQUETTE

WINDYARD CHAIRS  
WITH SEATING BY

AIRSPACE  
SOLUTIONS

> SAFETY

AIRPORTS FUEL  
REGIONAL ECONOMIES

# Recommendation

Adopt Resolution No. 2012-00XX,

1. Rescinding Resolution No. 2012-0018, granting a 10-year Lease to Airport Lounge Development, Inc. to design, build, and operate an airport lounge in Terminal 2 East at San Diego International Airport; and
2. Waiving Authority Policy 6.01; and
3. Granting a Lease to Swissport Lounge, LLC to design, build, and operate a Common Use Airport Lounge in Terminal 2 East at San Diego International Airport with a first year Minimum Annual Guarantee (MAG) of \$150,000; subject to Federal Aviation Administration (FAA) approval of term; and authorizing the President/CEO to take all necessary actions to execute the concession lease.



# Next Steps

- Tenant Design – 4<sup>th</sup> Quarter CY2012
- Tenant Buildout – 1<sup>st</sup> Quarter CY2013
- Lounge Operational – 2<sup>nd</sup> Quarter CY2013



# Questions



AIRPORTS FUEL  
REGIONAL ECONOMIES