



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Mukesh (Mookie) Patel

SUBJECT: See Below

DATE: February 18, 2025

Approved

Date:

2/21/2025

SUBJECT: Approval of Proposer Rankings and Authorization to Negotiate and Execute Concession Agreements for the San José Mineta International Airport Retail Concession Program

RECOMMENDATION

- (a) Approve the selection of the top-ranking concessions for Package I and Package II from the request for proposal for the Retail Concession Opportunities at the San José Mineta International Airport.
- (b) Adopt a resolution authorizing the City Manager, or her designee, to:
 - (1) Negotiate and execute concession agreements between the City of San José and the following entities, effective from the date of execution by the City Manager through June 30, 2037:
 - (i) HG SJC Retail Concessionaires, LLC for the design, construction, and operation of retail concessions at the Airport listed as Package I of the Retail Concession request for proposals;
 - (ii) Paradies Lagardère @SJC Retail, LLC for the design, construction, and operation of retail concessions at the Airport listed as Package II of the Retail Concession request for proposals;
 - (2) Negotiate and modify the concept types, concept locations, and/or concept designs with the entities above, as needed, to align the concepts with the Airport's needs.
 - (3) Terminate negotiations with any of the recommended proposers for Package I and Package II if the City and the recommended proposers cannot agree upon the terms of the concession agreement, and negotiate and execute concession agreements with the next highest ranked proposer(s) in accordance with the requirements of the request for proposal, in order of their ranking for each package, until an agreement has been reached with an operator.

- (4) Exercise the option to extend the term of the agreement(s) through June 30, 2039, should the Airport move delivery operations to a central receiving distribution center.
- (5) Negotiate and execute office and support space lease agreements through June 30, 2037, or through June 30, 2039 (if the two-year option is exercised), to align lease agreements with the concession agreements.

SUMMARY AND OUTCOME

Approval by City Council of the final rankings of proposals for the Retail Concession Opportunities request for proposals (RFP) and authorization for the City Manager, or her designee, to negotiate final terms and conditions with the top-ranked proposers will allow for the development of the new retail concession program at the San José Mineta International Airport (Airport). Granting authority to extend the agreement terms by two years, contingent upon Airport implementation of a central receiving and distribution center (CRDC), will allow the awarded proposers to offset CRDC-related operational costs. Finally, authorizing the City Manager, or her designee, to execute separate office and support space leases with awarded proposers for the duration of their concession agreements will ensure they have the necessary space to operate effectively.

The RFP consisted of 12 concession locations across Terminals A and B, offering a diverse mix of specialty retail, cafes, and travel essentials, all designed to give the Airport retail concessions a fresh look and feel. The program prioritizes high-quality products, local representation, technology, and a positive customer experience. The RFP included two packages with six concession locations each.

The Airport received three proposals for each package. An evaluation panel meticulously ranked these proposals based on established criteria, ultimately recommending the top-ranked proposers for the award. This new retail concession program is expected to yield significant benefits, including a guaranteed combined total minimum annual guarantee (MAG) of revenue to the Airport in the amount of \$4,843,025. The collective total minimum revenue guaranteed over the term of the agreement, if so awarded, is \$48,430,250. This is approximately a 20% increase in the MAG revenue compared to Fiscal Year 2024-2025. Furthermore, the program will include diverse offerings featuring established brands and local businesses, strong Airport Concessions Disadvantaged Business Enterprise (ACDBE) participation exceeding current levels, a high-quality build-out supported by a minimum capital investment of \$16.9 million, and new technology components that are designed to drive incremental revenue. Additionally, by having two operators, the Airport anticipates a significant improvement in customer service as the operators compete head-to-head for the passenger's dollar.

The RFP has phased turnover dates. All concession locations turned over on July 1, 2025, must be open to the public by June 30, 2026. All locations turned over on July 1, 2026, must be open to the public by January 31, 2027. The Airport's goal is to have as many concession locations constructed and open before the upcoming 2026 Super Bowl. To encourage timely completion of construction before this event, the RFP provides an incentive for the awarded proposers to complete construction on an aggressive schedule that reduces the construction period by five months for the locations turned over in 2025 and by two months for the locations turned over in 2026. Should the awarded proposers meet the aggressive timeline, they will receive an adjusted MAG based on 85% of the Year 2 (July 1, 2026-June 30, 2027) revenue to the Airport. However, in no instance shall the MAG fall below \$1,000,000. This incentive may potentially reduce costs for awarded proposers early in their contract term.

The initial terms of the agreements are 12 years. Should the Airport enter into an agreement for a CRDC, which will relocate product deliveries to a to-be-determined location outside of the terminal, then the delegation of authority shall extend the term of the agreement with each awarded proposer for an additional two years. The additional term will allow the awarded proposers to offset the additional operating costs, and the City will continue to collect MAG revenue for the two additional years, totaling approximately \$9,686,050 collectively.

If the negotiations with the top-ranked proposers are not successful, negotiations will proceed with the remaining proposer(s) in order of their ranking until an agreement is reached. As specified in the RFP, no proposer may be awarded more than one package. Therefore, if the top-ranked proposer for one package is also the next highest-ranked proposer for a second package, the City will instead negotiate with the third-ranked proposer for that second package.

In summary, if awarded, the new program would replace 12 existing concession locations, bringing an updated product mix and a refreshed look and feel to the retail concessions at the Airport.

BACKGROUND

The Airport's existing retail concession program consists of 18 retail concepts throughout Terminals A and B managed by AMS SJC JV. The existing agreement with AMS SJC JV has a phased expiration timeline. Ten of the concession locations expired on June 30, 2024, and remain in "holdover" status, pursuant to City Council approval (by Resolution No. [RES2024-123](#)) until turnover to the awarded proposers on July 1, 2025. The remaining locations expire on June 30, 2026, and turnover to the awarded proposers on July 1, 2026. The RFP consisted of six concession locations per package with a total of 12 retail locations between the two packages. Certain existing concession

locations that were underperforming were removed from the program and are not included in either Package I or Package II.

With the expiration of the AMS SJC JV agreement, the City contracted with ICF, a well-reputed concessions consultancy firm, to facilitate updating the retail concession program. The goal was to bring new, exciting, and innovative concessions to the Airport that reflected the local region of San José and Silicon Valley. As part of this process, ICF provided guidance to staff throughout the City's competitive bid process and ensured the process was followed in accordance with the City's procurement policy.

In developing the new retail concession program, ICF developed a retail concession demand analysis, provided benchmarking analysis for the Airport against comparable airports with similar enplanements, examined the spend per passenger and service category spends (e.g., specialty retail, café, travel essentials, etc.), provided recommendations on packaging retail concession concepts and space, and provided solicitation and outreach assistance. This work ultimately led to the development and finalization of the RFP and the exemplar. The new retail concession program was developed to achieve the overriding goals as follows (abridged):

1. Proposers should be highly experienced retail operators with a proven record of accomplishment and success, including excelling in delivering exceptional customer service, offering top-quality goods, and ensuring convenient experiences for travelers. Additionally, an ideal proposer prioritizes creating a positive and healthy work environment for employees while demonstrating a strong commitment to sustainable practices.
2. Maximize customer satisfaction and experience by creating a retail concession program that offers a variety of high-quality products and services that appeal to a broad customer base while providing competitive pricing, as well as local goods and services in a highly designed retail environment.
3. Incorporate technology and innovative concepts to expand offerings.
4. Create a distinctive San José and Silicon Valley experience for passengers and Airport users by offering visually appealing and welcoming concessions that capture the region's unique identity.
5. Curated product selection, with pre-packaged grab-and-go items, high-quality souvenirs, and gift merchandise reflecting the local flavor and contributing to a keen sense of place within the Airport.
6. Optimize retail revenue generation.

Airport staff, in partnership with ICF, conducted extensive outreach before the release of the RFP (see Public Outreach herein), including two outreach sessions conducted at the Airport on May 22 and 23, 2024. The sessions were designed to raise awareness within the community about the upcoming opportunities at the Airport and allow for the public at large to provide comments and input to the City about the retail concession plan. These sessions addressed the key terms and conditions of the RFP and discussed the multiple opportunities available to all-size companies, including the possibility for smaller businesses to partner with larger companies for Package I and Package II. Large concession companies that expressed interest in proposing on Package I and/or Package II, were invited to host a table at the outreach sessions and meet local businesses. The sessions were well attended, and the City received valuable input from the public comments. Most notably, comments from the industry included concerns about the high cost of the capital build-out, operating costs, high labor costs and rent. Based on the input received from the public and the industry, City staff, in coordination with ICF, established the final terms and conditions of the RFP.

The final key terms and conditions released as part of the RFP for all packages were:

1. **Packages:** Two packages consisting of six locations, each spread across both terminals A and B.
2. **Term:** 12 years with a single automatic two-year option to extend should the Airport move delivery operations to a CRDC.
3. **Revenue to the Airport:**
 - Concessionaire will pay a percentage of sales (percentage fee) for the first two years while concepts are under construction. Commencing on July 1, 2027, and all subsequent years, the concessionaire shall pay the greater of the MAG as proposed or the percentage fee.
 - MAG was biddable for year three, and subsequent years MAG will be calculated as 85% of the previous year's percentage of sales paid to the Airport; however, the MAG will never be less than the previous year's MAG.
 - Percentage fee was biddable between the range of 15-25% of gross revenue.
 - The Airport strongly desires to incorporate locally made items into the program. All locally made products in the San José-San Francisco-Oakland regional market will receive a 3% reduction on the biddable percentage fee.
4. **Locally Made:** To ensure product freshness all grab-and-go food must be locally sourced from Santa Clara County.

5. Construction:

- The RFP provided a phased turnover of the concession locations. All locations turned over on July 1, 2025, must be open to the public and fully operational by June 30, 2026, and locations turned over on July 1, 2026, must be open to the public and fully operational by January 31, 2027.
- The Airport's goal is to complete most of the construction before the upcoming 2026 Super Bowl. To incentivize the proposers to complete construction on an aggressive schedule, the RFP provides an incentive for the awarded proposers. If the awarded proposers complete construction and are open to the public by January 31, 2026 (for the locations turned over on July 1, 2025), and November 18, 2026 (for the locations turned over on July 1, 2026), they will receive an adjusted MAG based on 85% of the Year 2 (July 1, 2026-June 30, 2027) revenue to the Airport; however, at no time shall the MAG fall below \$1,000,000.

6. **Minimum Capital Investment:** Capital investment was biddable, and the minimum bid could not be below \$900 per square foot.

7. **Mid-Term Refurbishment:** Successful proposers must re-invest 10% of their actual construction costs at the mid-point of their contract for refurbishment of their stores.

8. **Pricing Policy:** Not to exceed 15% above approved comparable street pricing.

ANALYSIS

On August 15, 2024, the City released an RFP for the retail concession opportunities at the Airport consisting of Packages I and Package II. Following the release of the RFP, the City received three proposals for Package I and three proposals for Package II from the following companies listed below.

Package I	Package II
HG SJC Retail Concessionaires, LLC	HG SJC Retail Concessionaires, LLC
Paradies Lagardère @SJC Retail, LLC	Paradies Lagardère @SJC Retail, LLC
The Marshall Group, LLC	The Marshall Group, LLC

Evaluation Process: All proposals were initially reviewed to ensure they met the minimum qualifications and that all administrative requirements were met. An in-depth review by the Airport's Finance team ensured that all submitted proposals met the minimum qualifications. From there, each proposal was evaluated by package and scored independently, in accordance with the evaluation criteria set forth in the RFP, by

a six-member evaluation team. The evaluation panel consisted of industry experts in airport concession programs from San Francisco and San José Airports, in addition to Airport’s Government Affairs Officer (who also oversees the Airport ACDBE program), the Airport’s Deputy Director of Finance, a member of the Airport Commission, and a member of Team San José. The evaluation panel evaluated the proposals separately, then, collectively interviewed all proposers (randomly drawn for order) for both packages. The evaluation panel considered all aspects of the proposals as well as the interview and ranked the proposals in accordance with the evaluation criteria as stated in the RFP. The following evaluation criteria was established.

Evaluation Criteria	
1	Proposed Concepts and Design and Integration of Technology
2	Product Mix/ Local Representation
3	Experience (includes Operations, Management, Customer Service and Marketing Plans, Company Background, and Management Experience)
4	Financial Condition (includes Financial References, Proposer Entity Statements, and the ability to fund needed investments)
5	Proposed Fees: MAG, % Rent, Capital Investment, Sales, and Revenue Projections
6	Interview

After the interviews, the evaluation panel submitted a final ranking and a recommendation of award to the Director of Aviation for each package based on the evaluation criteria established above. The proposals were scored and ranked as follows.

Package I Evaluation Criteria	Possible Points	HG SJC Retail Concessionaires, LLC	Paradies Lagardère @SJC Retail, LLC	The Marshall Retail Group LLC
Proposed Concepts and Design, and Integration of Technology	175	164	155	148
Product Mix / Local Representation	200	187	176	179
Experience	250	219	230	212
Financial Condition	75	68	52	64
Proposed Fees	175	163	158	113
Interview	125	111	122	110
TOTAL	1,000	912	893	826

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Package II Evaluation Criteria	Possible Points	Paradies Lagardère @SJC Retail, LLC	HG SJC Retail Concessionaires, LLC	The Marshall Retail Group LLC
Proposed Concepts and Design, and Integration of Technology	175	158	158	151
Product Mix / Local Representation	200	172	184	183
Experience	250	230	220	215
Financial Condition	75	52	68	64
Proposed Fees	175	164	154	112
Interview	125	121	111	110
TOTAL	1,000	897	895	835

The City is recommending award to the top-ranked proposers for each package as follows.

- **Package I:** HG SJC Retail Concessionaires, LLC (Hudson)
- **Package II:** Paradies Lagardère @SJC Retail, LLC (Paradies)

Proposal Summary: The proposals recommended for award offer the most complete retail concessions with the greatest likelihood for long-term success. Cumulatively, the new packages provide a rich blend of concepts that highlight both San José and Silicon Valley and feature well-known local products. Of notable significance is the Airport will see an increase in revenue of approximately 20% in MAG payments, and with new and improved technology and offerings, the total financial benefit is likely to be significantly higher. The proposed cumulative minimum capital investment of \$16.9 million is required by the selected proposers and will ensure high-end finishes that complement the look of the Airport. Moreover, it is important to recognize the success of the local participation derived from the local outreach sessions, which resulted in several local vendors’ products being showcased in the locations throughout the Airport. This emphasis on local products contributes to a strong sense of community, evident in both the proposals.

Package I: Hudson’s program will showcase a diverse selection of local goods, including wines from vineyards such as Eden Rift Vineyards (Hollister), J. Lohr (San José), artisanal gifts from local makers including Alice Frost Designs and Lola x Kenneth Collaboration (San José), and culinary delights from local purveyors such as Mike & Niki’s Honey Company (Campbell), Sweetdragon Baking Company (San José), Garlic World (Gilroy), and Lala’s Jam Bar (Sonoma County), among many others. Tech enthusiasts will be captivated by a dedicated Google feature area, offering interactive stations and showcasing exclusive merchandise available only at the Airport. SJC will be the first airport in the nation to feature merchandise directly from Google. In addition to Google products, Hudson will carry a curated selection of Apple electronics and other sought-after technology. The program will include San José based Nirvana Soul café, and all grab-and-go food products will be sourced locally from Eatly (San José). The overall concepts showcase the rich heritage of Silicon Valley and the San José region,

drawing inspiration from iconic local names such as Santana Row and Willow Glen Market.

Package II: Paradies' program will highlight a diverse selection of local goods, reflecting the unique character of the San José region. The program will feature an array of locally sourced goods, showcasing the work of artisans and makers such as Gooseberry Designs (Los Gatos) and The Capsmith (San José). Local Gourmet offerings will include products from Nokki Farm (San José), Alice Stick Cookies (Los Altos), Ginger Lab (Santa Clara), and Daybreak Coffee (San José), amongst many others. A highlight of the program will be a selection of licensed sports apparel for men, women, and children, featuring local teams such as the San Jose Sharks, Earthquakes, and Giants, alongside popular Bay Area favorites like the 49ers, Giants, and college teams from Stanford, UC Berkeley, and San José State. The program will feature locally made pre-packaged grab-and-go options from Greenlee's Bakery. The concepts draw inspiration from iconic local landmarks such as San Pedro Square, Plaza de San José (a nod to the historic Mayfair neighborhood), and the Garden Marketplace (inspired by the historic Rose Garden).

ACDBE: In support of the Airport's desire to grow its current ACDBE program, each proposer included an ACDBE component with their bid. The total ACDBE joint venture participation rate for Hudson and Paradies is 15% and 12%, respectively, which both surpass the current ACDBE participation rate of 9% for the incumbent operator of these spaces. The Airport's current ACDBE race-neutral goal for non-rental car concessions is 10.7%.

Creating New Opportunities: Hudson and Paradies are dedicated to continuously refreshing its specialty retail offerings, providing ongoing opportunities for local businesses to participate. Both proposers have committed to actively participating in the Airport's bi-annual outreach events. These events will facilitate valuable interactions between local businesses and the operators, fostering opportunities for local businesses to showcase their products and explore potential partnerships for inclusion within the retail program.

CRDC: The Airport is currently evaluating the feasibility of establishing a CRDC for airport concession deliveries. This initiative is separate from the retail concession RFP process. The proposed CRDC would replace the existing shipping and receiving zone in Terminal B, which has experienced increased congestion. The shipping and receiving zones are on the roadway that connects the A and B terminals, and the Airport intends to relocate shipping and receiving to a location outside of the terminal to reduce congestion to the roadway. The cost of the current shipping and receiving and the future CRDC is paid for by the concessionaires (food and beverage, retail, lounges, etc.). The City anticipates that CRDC operating fees will range from approximately 2% to 3.5% of the concessionaire's gross revenue, which is higher than the current costs for shipping and receiving operations. The Airport acknowledges that this represents an additional

cost for operators. Therefore, the Airport included a single two-year Agreement term extension contingent upon the Airport requiring awarded proposers to transition to a CRDC facility at some point during the contract term.

Lease of Premises: The proposers have requested on-site support space at the Airport which will be governed by a separate lease agreement. The Airport is requesting the City Council to delegate authority to the Director of Aviation to enter into agreements with the successful proposers to align the lease with the concession agreement. All lease agreements are terminable by 30-day written notice by either party.

City Council Approval: The Airport is requesting the City Council approve the selection of the top-ranking proposers for Packages I and Package II and adopt a resolution authorizing the City Manager or her designee to (a) negotiate and execute concession agreements between the City of San José and the top-ranking proposers for a term of 12 years; (b) negotiate and modify the concept types, concept locations, and/or concept designs with the selected proposers as needed to align the concepts with the needs of the Airport; (c) allow the City Manager to terminate negotiations with the top-ranked proposers and select the next ranked proposer if the City and the recommended proposer are unable to come to terms; (d) exercise a two-year extension to the term of the agreement(s) through June 30, 2039, subject to the construction of a CRDC; and (e) negotiate and execute concession lease agreements through June 30, 2037, or through June 30, 2039 (if the two-year option is exercised) to align concession lease agreements with the expiration dates of the concession agreements.

EVALUATION AND FOLLOW-UP

The Director of Aviation shall be responsible for the coordination of the agreements and shall render overall supervision of its progress and performance.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

PUBLIC OUTREACH

The Airport conducted an extensive outreach effort before the release of the RFP as listed below.:

1. Notified and provided informational fliers to Council Offices, the San José Minority Business Development Agency, Airport Minority Advisory Council,

Airport Council International, Federal Aviation Administration Matchmaker System, Small Business Development Center, and various business and ethnic chambers.

2. Called and emailed 22 ACDBE businesses.
3. Called and emailed 142 interested parties nationwide, including retail prime operators.
4. Developed a social media campaign to promote the retail RFP, both before and after the outreach session that included the following:
 - Organic components across Facebook, Instagram, X, and LinkedIn;
 - Paid boosts on Facebook and Instagram; and
 - Overall achieved 20,097 impressions and 1,143 engagements.
5. Presented the opportunities to the airport industry at the Airport Experience, Airport Council International Business of Airports, and the Airport Minority Advisory Council Business Diversity Conferences.
6. Met with all interested parties, including prime retail operators.
7. Hosted outreach sessions on May 22 and 23, 2024, at the Airport to raise awareness about the concession opportunities to a broad range of businesses. The sessions consisted of two informational meetings onsite with an online option. The events were recorded and posted to the Airport's website for interested parties that were unable to attend. The outreach sessions were well attended by approximately 60 people representing approximately 21 businesses. Staff provided an overview of the concession program and information regarding how businesses can get involved. The sessions included a question-and-answer segment where staff and a representative from ICF responded to questions. As a result of the outreach sessions, over six companies will showcase their products in the new retail program.

The RFP was released on August 15, 2024, and publicized on Biddingo, the Airport's website www.flysanjose.com, and Airport Experience News. Following the release of the RFP, the Airport hosted an optional pre-proposal conference and site tour on September 11, 2024. The presentation from the pre-proposal conference and site tour was posted to Biddingo as an addendum for interested parties that were unable to attend.

This item will be posted on the City's Council agenda website for the March 11, 2025 City Council Meeting.

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COMMISSION RECOMMENDATION AND INPUT

Staff presented the retail concession opportunity RFP key terms and conditions to the Airport Commission on February 12, 2024. The Airport Commission was notified of the recommendation of award on February 10, 2025.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Mukesh (Mookie) Patel, C.M.
Director of Aviation

The principal author of this memorandum is Rebekah Bray, Principal Property Manager, Airport Department. For questions, please contact Drake Beaton, Division Manager, Airport Department at dbeaton@sjc.org or (408) 392-3679.