



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

SUBJECT: SEE BELOW

DATE: October 7, 2019

Approved

Date

10-17-19

SUBJECT: APPROVAL OF THE FOURTH AMENDMENT TO THE AIRPORT CONCESSION AGREEMENT 10467-CA-12, AND THE FIRST AMENDMENT TO THE AIRPORT CONCESSION AGREEMENT 10612-CA-17, WITH ALD DEVELOPMENT CORP FOR SHARED USE LOUNGE SERVICES

RECOMMENDATION

- (a) Approve the Fourth Amendment to the Airport Concession Agreement 10467-CA-12 between the City of San José (“City”) and ALD Development, Inc. dba The Club at SJC (“ALD”) to retroactively and temporarily increase the Gross Revenue percentage fee payable to the City from 13% to 15%, from July 1, 2019 through July 31, 2020, and revise the Joint Marketing Fund to increase the scope of service.
- (b) Approve the First Amendment to the Airport Concession Agreement 10612-CA-17 between the City and ALD to temporarily increase the Gross Revenue percentage fee payable to the City from 13% to 15%, from the Commencement Date through July 31, 2020, provide for a onetime payment of \$31,150 from ALD to the City, and revise the Joint Marketing Fund to increase the scope of service.

OUTCOME

Approval of the Fourth Amendment to the Airport Concession Agreement 10467-CA-12 will retroactively and temporarily increase the Gross Revenue percentage fee payable to the City from 13% to 15%, from July 1, 2019 through July 31, 2020, and revise the Joint Marketing Fund to increase the scope of service.

Approval of the First Amendment to the Airport Concession Agreement 10612-CA-17 and the Fourth Amendment to the Airport Concession Agreement 10467-CA-12 will provide the City with additional revenue of approximately \$183,549 and align the Joint Marketing Fee with the Joint Marketing Fee under the current food and beverage concession agreements.

BACKGROUND

On October 22, 2012, the Director of Aviation executed a Concession Agreement with ALD following a Request for Proposals, for the operation of a 7,101-square foot shared use lounge at the Airport for a term of three years. In September 2015, Council approved a Second amendment to extend the term of the Agreement three years to January 31, 2019. On November 28, 2017, Council approved a Third Amendment to extend the term of the Agreement six years to January 31, 2025, and increase the Gross Revenue percentage fee payable to the City from 10% to 13%. The existing shared use lounge is located in the FIS area of the Airport between Terminals A and B, and is available to all passengers for a fee and at no cost to airline executive members flying on airlines that have a relationship with ALD.

On November 17, 2017, Council approved an Airport Concession Agreement 10612-CA-17 between the City and ALD for a second Shared Use Lounge (“Terminal A New Shared Use Lounge”) at the Airport located in Terminal A to address significant growth of the Airport.

The Terminal A New Shared Use Lounge experienced construction delays which significantly impacted the project schedule and as a result, the opening of the Terminal A New Shared Use Lounge was delayed six months.

ANALYSIS

Airport Staff recognized the delayed opening of the Terminal A New Shared Use Lounge would result in a loss of revenue to the City. Airport Staff met with ALD to address their concerns about the construction delays and the financial impacts to the City, and ALD has agreed to financially compensate the City for the lost revenue.

1. Current Shared Use Lounge (10467-CA-12)

ALD will retroactively and temporarily increase the Gross Revenue percentage fee payable to the City from 13% to 15%, from July 1, 2019 through July 31, 2020. By increasing the percentage fee, the City will receive a projected \$101,609 in additional revenue.

2. Terminal A New Shared Use Lounge (10612-CA-17)

ALD will compensate the City with a onetime payment in the amount of \$31,140 which is equivalent to three months of the Minimum Annual Guarantee for this location; and ALD will temporarily increase the Gross Revenue percentage fee payable to the City from 13% to 15%, from the Commencement Date of October 10, 2019 through July 31, 2020. By increasing the percentage fee, the City will receive a projected \$50,800 in additional revenue.

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In addition to the above compensation to the Airport, the City recommends modifying the Joint Marketing Fund Fee to increase the scope of service to incorporate customer service initiatives. The changes to the Joint Marketing Fund Fee are consistent with the Joint Marketing Fund Fee in the current food and beverage concession agreements.

EVALUATION AND FOLLOW-UP

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

PUBLIC OUTREACH

This item will be posted on the City's Council Agenda Website for the October 29, 2019 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

There is no commission recommendation or input associated with this action.

CEQA

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

/s/
JOHN AITKEN, A.A.E.
Director of Aviation
Airport Department

For questions, please contact John Aitken, A.A.E., Director of Aviation at (408) 392-3610.