



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Aitken

**SUBJECT:** SEE BELOW

**DATE:** November 6, 2017

Approved

Date

11-18-17

**SUBJECT: APPROVAL OF A RETAIL MERCHANDISING UNIT CONCESSION AGREEMENT BETWEEN THE CITY OF SAN JOSE AND PRI-SAN JOSE, LLC**

## RECOMMENDATION

Approve the Airport Retail Merchandising Unit Concession Agreement (“Agreement”) with PRI-San José, LLC (PRI) for a term of five (5) years from the Commencement Date, with a concession fee payable to the City of San José (“City”) of the greater of a minimum annual guarantee (“MAG”) or an annual percentage fee of 2.25%. The MAG is established at Year 1 at \$54,000 and escalates annually to Year 5 of the Agreement to \$60,778, for a total minimum guarantee of \$286,695.

## OUTCOME

Approval of this agreement will allow the Mineta San José International Airport (“Airport”) to provide increased opportunities for local, small and artisan businesses at the Airport while enhancing its retail merchandising selections.

## BACKGROUND

The Airport desires to show-case the regional and local image of San José and the neighboring region by enhancing the merchandise mix and product offerings at the Airport. This objective will also provide local and small businesses, vendors, and artisans an opportunity to be represented at the Airport. To meet this objective, on April 19, 2017, the City released a Request for Proposal (RFP) for the purpose of selecting a prime operator to develop, design, fund, construct, operate, and manage a Retail Merchandising Unit (“RMU”) Concession Program at the Airport. The program consists of nine, primarily retail RMU’s that will be refreshed regularly with new concepts and/or merchandise in order to provide opportunities for a variety of local and

small businesses and feature a wide variety of merchandise that will enhance the overall merchandise mix within the Airport.

The RFP listed the Airport's goals and objectives, including the Airport's desire to select a proposer with a proven record of revenue enhancement by incorporating local and small businesses into an RMU program. The RMU program is designed to showcase the local and regional image by incorporating a merchandise mix that is uniquely identifiable to San José, Santa Clara County, and the Silicon Valley. As part of the Airport's goal to continue to provide opportunities for local and small businesses, the successful proposer is required to host an annual business fair. Further stated objectives were the establishment of specific performance standards, the addition of high quality concepts, and the production of high quality RMU's. The MAG and percentage fees were biddable for each of the five years. Proposers were required to submit one bid for all nine locations at the Airport.

To enable potential proposers to obtain a sense of potential revenue at the Airport, and to provide the opportunity to place the highest bid possible, the RFP provided the following information:

- SJC Historical Enplanements for Fiscal Years 2013-2014, 2014-2015, and 2015-2016;
- Historical Retail Gross Sales for Fiscal Years 2013-2014, 2014-2015, and 2015-2016;
- Estimated Passenger Activity by Gate for Fiscal Year 2015-2016; and
- Site tour of the Airport.

To encourage and help facilitate the establishment of relationships between the potential proposers and the local, and small businesses and artisan vendors within the community, the Airport hosted a Prime and Sub-Concessionaire Outreach Meeting on May 2, 2017 at the San José Convention Center & Cultural Facilities. To encourage attendance and participation, an extensive outreach effort was undertaken by the City that included:

- Contacting over 1,400 national, local and small businesses by phone or email;
- Notifying 40 Ethnic Chambers and Civic Organizations and sending an Informational Memo to Council; and
- Posting of the RFP on BIDSync and advertising on Airport Revenue News (ARN) magazine's website, FAA Opportunities website for DBE's, the Airport Minority Advisory Council website, the Airport's website and The City Managers Weekly Report for April 28, 2017 and May 07, 2017.

In addition to City staff's outreach, considerable outreach was conducted by the Airport's concession consultant, AirProjects, Inc., which included:

- Contacting over 500 local businesses either registered with the State of California Airport Concessions Disadvantaged Business Enterprises (ACDBE) or based off of a purchased contact list with products relevant to the RMU program, and offering in person meetings with an AirProjects representative;

- Identifying and contacting potential businesses with product categories that could be successfully sold from an Airport RMU located in Santa Clara County and the surrounding area, including vendors at art and wine festivals, specialty retailers, food and baked good providers, locally-themed retailers, and specialty services. Business were offered in person meetings with an AirProjects representative. This method of outreach was quite successful contributing to the identification of 46 interested businesses;
- Contacting local business associations, chambers of commerce and all ethnic chambers, and requesting distribution of the RMU outreach information to their members; and
- A nationwide search for potential prime concessionaires; 52 companies were identified and contacted.

Prior to the Prime and Sub-Concessionaire Outreach Meeting, nine companies identified themselves as potential proposers and attended the mandatory Prime and Sub-Concessionaire Outreach Meeting. Attendance was mandatory for all potential proposers. Speakers included John Aitken, who was, at that time, the Interim Director of Aviation, Irv Tosk, Senior Property Manager, and Ann Ferraguto, Principal from AirProjects, Inc. Businesses in attendance had the opportunity to show-case their merchandise to the potential prime operators.

A mandatory pre-proposal conference and site tour was held on May 3, 2017, to address the specifics of the RMU Concession Program with potential proposers, and to provide a site tour of the locations. Four potential proposers attended the conference and representatives from Airport Operations, Planning and Development, Marketing, and Finance and Administration made presentations. Those in attendance were provided an opportunity to ask questions, and responses were provided in an addendum, posted on BIDSync on May 17, 2017. The prospective proposers had until May 10, 2017, to submit follow-up questions and request clarification regarding the RFP.

The City received one proposal by the June 2, 2017, submission deadline from PRI. Staff conducted an initial review of the proposal to determine that the minimum qualifications as outlined in the RFP had been met. The RFP Evaluation Committee reviewed and evaluated the proposal submitted by PRI and found that it was responsive and met the best interests of the Airport.

PRI is a California ACDBE certified company that has been in the business of specialty retail leasing for over 25 years. PRI is a proven leader in the field, having owned and managed over 100 RMU's/kiosks including an award winning program at Denver Airport, served as a Consultant to help retailers enter into specialty retail, and conducted training seminars on RMU/kiosk programs worldwide. Their understanding of specialty retail and airport concessions, combined with their experience in creating, leasing, and managing high quality and dynamic specialty retail programs makes them a good fit for the Airport.

On August 25, 2017, the City sent notice to PRI that the City had accepted its proposal and intended to award the agreement to PRI. The last date for protests to the recommendation of award was September 4, 2017. No protests were received.

**ANALYSIS**

The Airport currently has one retail concessionaire, and this agreement will provide additional retail services that increase the merchandise selection to the traveling public, while increasing local and small business participation at the Airport.

PRI proposed a concession fee, payable to the City, of the greater of the MAG or percentage fee for the term of the Agreement as follows:

<u>Year</u>	<u>Annual Percentage Fee</u>	<u>Minimum Annual Guarantee</u>
1	2.25%	\$54,000
2	2.25%	\$55,620
3	2.25%	\$57,289
4	2.25%	\$59,008
5	2.25%	\$60,778

PRI proposed a capital investment of \$35,000 per retail merchandise unit for a total capital investment total of \$315,000. The number of RMU locations can be increased or decreased, with a corresponding adjustment to the MAG, if mutually agreed to by the Director of Aviation and PRI. In the first year, should the gross sales for the combined RMUs be at or below the MAG, the Airport would be making a financial investment in the program, as the cost of the space for the RMU units is estimated to exceed the revenue paid to the Airport.

**EVALUATION AND FOLLOW-UP**

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

**POLICY ALTERNATIVES**

**Alternative #1:** Council can choose not to approve the award of the RMU Concession Agreement to PRI.

**Pros:** Airport will have more available space in the terminal as nine RMU's would not be installed.

**Cons:** The Airport would forgo a minimum of \$286,695 in revenue over the five year term and result in a decrease in Airport merchandise options for passengers and opportunities for local and small businesses at the Airport.

**Reason for not recommending:** This agreement will afford local and small businesses the opportunity to showcase new, specialty, branded and seasonal merchandise at the Airport. It will provide additional merchandise options to passengers while increasing revenue to the Airport.

### **PUBLIC OUTREACH**

Staff contacted over 1,400 businesses in the United States based on the list identified by AirProjects, Inc. and Staff. AirProjects Inc. met with many local, small, and minority businesses within the local community as part of their outreach efforts. 40 Ethnic Chambers and Civic Organizations were notified about the RFP and the Prime and Sub-Concessionaire Outreach Meeting.

The RFP was posted on BIDSync, and notifications regarding the RFP were sent out to businesses identified on BIDSync by their interested classifications. Information regarding the RFP was posted on the Airport's website, the Airport Minority Advisory Council website, and the Airport Revenue News (ARN) website, Informational Memo to Council, and the City Managers Weekly Report dated April 28, 2017 and May 07, 2017.

This memorandum will be posted on the City's Council Agenda website for the November 14, 2017 Council Meeting.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION/INPUT**

As a new revenue agreement, this item is an administrative function. Therefore, no action by the Airport Commission occurred.

HONORABLE MAYOR AND CITY COUNCIL

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**CEQA**

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

/s/

JOHN AITKEN, A.A.E.

Director of Aviation

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