

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

SUBJECT: SEE BELOW

DATE: May 6, 2019

Approved

D. D. SyL

Date

5/10/19

**SUBJECT: APPROVAL OF PROPOSER RANKINGS AND AUTHORIZATION TO
NEGOTIATE AND EXECUTE CONCESSION AGREEMENTS FOR THE
SAN JOSE INTERNATIONAL AIRPORT FOOD AND BEVERAGE
CONCESSION PROGRAM**

RECOMMENDATION

- (a) Approve the selection of the top-ranking concessions for Packages I, II, and III for the Request for Proposals ("RFP") for the Food and Beverage Concession Opportunities at the Norman Y. Mineta San José International Airport ("Airport").
- (b) Adopt a resolution authorizing the City Manager or designee to:
 - (1) Negotiate and execute Concession Agreements ("Agreement") between the City of San José and the following entities, effective from the date of execution by the City Manager through June 30, 2035:
 - (i) SSP America Inc. for the construction and operation of food and beverage concessions at the Airport listed as Package I of the Food and Beverage RFP;
 - (ii) Elevate Gourmet Brands-SJC Group for the construction and operation of a food and beverage concession at the Airport listed as Package II of the Food and Beverage RFP; and
 - (iii) WSE Group Inc. for the construction and operation of a food and beverage concession at the Airport listed as Package III of the Food and Beverage RFP.
 - (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 needs of the Airport.
 - (3) Terminate negotiations with any of the recommended proposers for Packages I, II, or III in the event that the City and the recommended proposer(s) cannot agree upon the terms of the Concession Agreement, and negotiate and execute concession agreements with the next highest-ranked proposers, in order of their ranking for each package, until an Agreement has been reached with an operator.
- (c) Adopt a resolution authorizing the Director of Aviation to extend the term of the agreement(s) through June 30, 2040, subject to mutual agreement by both parties.

OUTCOME

Approval by City Council of the final rankings of proposals for the Food and Beverage Concession Opportunities RFP, and authorization for the City Manager or designee to negotiate with the top ranked proposers, will allow for the development of the new food and beverage concession program at the Airport.

With approval of the City Council, the new Agreements for these locations will guarantee a total minimum annual guarantee ("MAG") revenue to the Airport of \$3,379,862. The total minimum revenue guaranteed over the life of the Agreement, if so awarded, is \$47,318,068.

If the negotiations with the top ranked proposers are not successful, negotiations will proceed with the remaining proposers in order of their ranking until an Agreement is reached. This process will guarantee the replacement of 14 current food and beverage locations while providing an updated product mix as well as a fresh look and feel for the SJC terminal facilities.

The initial terms of the agreements are 15 years. Delegation of authority to extend the term of the agreement with each awarded proposer for an additional five years, upon mutual agreement, will allow the awarded proposers to maintain food and beverage service levels for passengers, refresh the concepts, and the City will receive guaranteed revenue of \$16,899,310. The extension to the Agreement provides an incentive for the awarded proposer as the awarded proposer(s) must demonstrate a strong ability to provide a high level of customer service and meet the operational standards of the Airport throughout the entire life of the contract.

EXECUTIVE SUMMARY

The City, in coordination with their consultant, conducted extensive market research and outreach to provide an inclusive business opportunity for all sized food and beverage companies. The RFP was structured into three "Packages" for specific locations of food and beverage concessions as follows:

- Package I: Multiple locations equivalent to 12 current locations throughout Terminal A and B, consisting of 15,254 square feet
- Package II: Individual location consisting of 1,166 square feet in Terminal B
- Package III: Individual location consisting of 876 square feet in Terminal B

On January 4, 2019, the City released a Request for Proposals for the Food and Beverage Concession Opportunities at the Norman Y. Mineta San Jose International Airport consisting of Packages I, II, and III. Following the release of the RFP, the City received 17 proposals from 10 different companies. All proposals were evaluated and interviewed by evaluation panel(s) consisting of industry leaders in airport concession programs from various airports, Airport Staff, and Team San Jose.

Given the number of proposals received, two panels were convened to review and evaluate the proposals. The first panel included five members and evaluated and interviewed all companies that submitted a proposal for Packages II and III. The panel's objective was to determine the most appropriate concepts to move forward to the second and final evaluation panel, based on the established evaluation criteria in the RFP. The second evaluation panel was comprised of seven members, with an objective to evaluate and interview all remaining proposals and recommend for award an operator for each of the three packages based on the same evaluation criteria.

All proposers for Packages II and III were interviewed by the first panel on March 21 and 22, 2019. The short-listed proposers for Packages II and III, along with all proposers for Package I, were evaluated by the second evaluation panel and interviewed on April 2, and 3, 2019.

To arrive at the Recommendation of Award, the evaluation panels 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. Both panels evaluated the customer service standards, capital investment, revenue to the City, marketing and promotions, financial capacity to perform, proformas, sales projections, architectural design (including the use of technology to augment service), staffing plans, labor/training practices, and experience and expertise in working in an airport environment. The proposals recommended for award offer the most complete food and beverage concessions program with the greatest likelihood for long-term success. At the conclusion of the interviews, the evaluation panel submitted a final ranking and a Recommendation of Award to the Director of Aviation.

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

- Package I: SSP America Inc.
- Package II: Elevate Gourmet Brands-SJC Group
- Package III: WSE Group Inc.
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Cumulatively, the new packages provide a rich blend of concepts that highlight both San José and the Silicon Valley and features several well-known local chefs and concepts. From local favorites such as Dish n Dash, Manresa, Olla Cocina, Jimmy Stump's The Table, and the Konjoe Burger Bar, to new concepts by recognizable local chefs David Kinch and Chris Yeo, the packages will appeal to all travelers, serving cuisine as diverse as our community. In support of the Airport's desire to grow its current Airport Concession Disadvantage Business Enterprise ("ACDBE") program, each proposer included an ACDBE component with their bid. The total ACDBE participation rate for these three packages is projected to be an impressive 39% in the first year. This surpasses the current ACDBE participation rate of 35% for the incumbent operator of these spaces. The Airport's current ACDBE race-neutral goal is 10.64%.

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The combined total of the three proposals provides the City with \$3,379,862 in minimum annual guaranteed revenue commencing with full implementation in 2021, resulting in a guaranteed revenue to the Airport in the amount of \$47,318,068 over the initial term of the agreement. This minimum guarantee is almost 20% higher than the current guaranteed revenue for these locations. A cumulative minimum capital investment of \$19.2 million is required by the selected Proposers, and will ensure high-end finishes and innovative designs to complement the look of the Airport.

The City is requesting Council to approve the selection of the top-ranking proposers for Packages I, II, and III and adopt a resolution authorizing the City Manager or designee to (a) negotiate and execute concession agreements between the City of San José and the top-ranking proposers for a term of 15 years (b) negotiate and modify the concepts 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, and (d) delegate authority to the Director of Aviation to exercise a five-year extension to the term of the agreement(s) through June 30, 2040, subject to mutual agreement by both parties.

BACKGROUND

The Airport's existing food and beverage concession program consists of 31 food and beverage concepts managed by two Prime Operators: HMS Host, International ("Host") and Pacific Gateway Concessions ("PGC"). In February 2019, PGC announced that it would be acquired by Stellar Partners, Inc., a subsidiary company of Host. The agreement is in the process of being assigned to Host for the remainder of the term. For the purposes of this memo, we will continue to refer to said agreement as PGC.

Host operates 14 concepts with four additional locations slated to open in 2019. When construction is completed, Host will have consolidated four locations into two and will operate a total of 16 locations, which makes up approximately 55% of the total food and beverage concession space at the Airport. Host's contract expires on June 30, 2028 and these locations were not considered under this RFP. PGC manages 14 concepts representing approximately 45% of the total food and beverage concession space at the Airport. PGC's contract with the City expires on June 30, 2020, and the replacement of these concession locations were released under the RFP.

With the impending expiration of the PGC agreement in 2020, the City contracted with AirProjects, Inc. ("AirProjects"), a well reputed concessions consultancy firm, to facilitate updating the food and beverage concession program with the goal of bringing new, exciting, and innovative concessions to the Airport that reflect the local region of San José. As part of this process, AirProjects provided guidance to Staff throughout the City's competitive bid process.

In developing the new food and beverage concession program, AirProjects conducted an extensive analysis of the current concessions program including examining the spend per passenger, revenue per passenger, service category spends (e.g. sit-down, quick-service, take-away, etc.), with comparisons to industry benchmarks. AirProjects developed a Food Service Concession Demand Analysis, Unit Packaging and Feasibility Tests, and provided solicitation and outreach assistance. This work ultimately led to the development and finalization of the Food Service Concept Development Plan. This master plan was the guiding principle from which the RFP and the Agreement were developed.

The new concession program was developed to achieve the overriding goals, as follows (abridged):

1. Maximize customer satisfaction with high quality products and services, that include competitive pricing, cleanliness, quality, selection, and service across all times of day;
2. Present attractive, welcoming concessions that creates a sense of place and promotes the "look and feel" of San José and the Silicon Valley;
3. Provide well known, market tested, and recognizable local, national, and regional brands;
4. Provide a mix of food and beverage service categories including casual dining, fast casual, quick service, bars, and specialty coffee;
5. Provide a wide selection of food and beverage products that meet today's food trends and addresses various types of life style preferences;
6. Integrate the newest and latest technology that reflects the image of the Airport and aids in addressing high volume traffic periods;
7. Allow for a strong financial return for the successful proposer(s) and the City;
8. Provide a high level of design and finish in accordance with the new Tenant Improvements Design Criteria;
9. Practice an environmentally conscientious business operation; and
10. Comply with the Airport Living Wage Ordinance and Prevailing Wage Policy.

Extensive outreach was conducted by Airport Staff and AirProjects prior to the release of the RFP (see Public Outreach herein), including four outreach sessions conducted at the City Hall Rotunda on July 24, and July 25, 2018. The sessions were designed to raise awareness within the community about the upcoming opportunities at SJC and allow for the public at large to provide comments and provide input to the City's concession plan.

These sessions addressed the key terms and conditions of the RFP and the multiple opportunities including the possibility of partnering with larger companies for Package I, and/or the prospect of proposing on Packages II and III. Large concession companies that expressed interest in proposing on Package I, were invited to host a table at the outreach sessions and meet local businesses. All sessions were well attended, and the City received valuable input from the public comments.

Most notably, comments from the public and the industry included concerns about the high cost of the capital build-out, operating costs and impediments, high labor costs, and rent (the greater of the minimum annual guarantee or percentage of sales). Based on the input received from the public and the industry, City Staff, in coordination with AirProjects, revised the final terms and conditions of the RFP as follows: (a) the minimum qualifications for all packages were lowered allowing more companies to qualify to bid, (b) to offset high capital costs, the required revenue percentages to be paid to the Airport were reduced to allow companies to retain a higher percentage of the revenue, (c) the minimum capital investment was established at \$700 per square foot in an effort to be reasonable with build-out expectations, (d) the pricing was biddable up to +15% of street pricing (allows businesses to offset the higher operational costs at an Airport, including security restrictions, screening of product, higher staffing costs, etc.), and (e) the Mid-Term Refurbishment period was removed from the initial 15-year term and will only be implemented upon execution of the 5-year option period.

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

1. Term: Fifteen years with one five-year option to extend upon mutual agreement
2. Revenue to the Airport:
 - a. Concessionaire will pay percentage of sales for the first year while concepts are under construction. Commencing on July 1, 2021, and all subsequent years, the concessionaire shall pay the greater of Minimum Annual Guarantee as proposed, or Percentage of Sales
 - b. Percentage of Sales calculated by location and will reset annually on July 1st:
 - i. 8% of Gross Receipts up to \$1,000,000
 - ii. 10% of Gross Receipts from \$1,000,000.01-\$2,000,000
 - iii. 13% of Gross Receipts over \$2,000,000
 - c. Subsequent years MAG will be calculated as 85% of the previous year's Percentage of Sales paid to the Airport, however, will not be less than the previous year's MAG
3. Minimum Capital Investment: \$700 per square foot. (Biddable Item)
4. Street Pricing mark-up: Up to 15% of current street pricing. (Biddable Item)

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ANALYSIS

On January 4, 2019, the City of San José issued a Request for Proposal for Food and Beverage Concession Opportunities at the Norman Y. Mineta San José International Airport with a submission due date of March 14, 2019. The City received a total of 17 proposals from the following companies:

Package I	Package II	Package III
Tastes on the Fly, Inc. /Mission San Jose, LLC	Joe the Juice New York, LLC	Joe the Juice New York, LLC
Delaware North, LLC	Elevate Gourmet Brands-SJC Group	Elevate Gourmet Brands-SJC Group
SSP America Inc.	SSP America Inc.	SSP America Inc.
	NNF Grewal Inc.	NNF Grewal Inc.
	JDDA Concession Management Inc.	JDDA Concession Management Inc.
	Mission Yogurt Inc.	Mission Yogurt Inc.
		WSE Group Inc.
		Fly Away Foods Inc.

The City considered the expense and time required to develop a proposal, and therefore determined it suitable that all companies who submitted a proposal be given the opportunity to represent their concept before a live evaluation panel. As outlined in the RFP, the following evaluation criteria was used to rank the proposers written submittal and subsequent interviews:

RFP Evaluation Criteria
General Information
Proposed Concept(s) and Design
Qualifications and Experience
Proposal Bid, Sales and Revenue Projections
Proposed Capital Investment
Management, Operational, Customer Service, and Marketing Plans

The City received a substantial number of proposals for Packages II and III (14 in total). For that reason, a “short-listing” panel of five business experts was convened to ensure that all Proposers had the opportunity to present their concept and business plan to the panel. This panel consisted of staff from the San Francisco International Airport, Seattle-Tacoma International Airport, the Airport, and Team San Jose. The panel’s objective was to determine which concepts were the most appropriate for the Airport using the above stated evaluation criteria. Live interviews were conducted on March 21, and March 22, 2019, and, upon conclusion, the panel recommended that the following companies advance to the final review by the second evaluation panel on April 2, and 3, 2019 (in order of ranking, highest to lowest):

Ranking	Package II
1	Mission Yogurt Inc.
2	Elevate Gourmet Brands-SJC Group
3	SSP America Inc.

Ranking	Package III
1	WSE Group Inc.
2	Mission Yogurt Inc.
3	Fly Away Foods Inc.
4	JDDA Concession Management Inc.
5	SSP America Inc.
6	Elevate Gourmet Brands-SJC Group

A second, separate expert evaluation panel consisting of seven members was convened to review and interview all Proposers from Package I, as well as those selected “short listed” companies by the first panel for Packages II and III to determine a Recommendation for Award of Concessions at the Airport. This panel consisted of airport concession industry leaders, Senior Airport Staff, and Team San Jose staff, including:

- **Paul Brown, Assistant General Manager of Commercial Development at Hartsfield-Jackson Atlanta International Airport (ATL).** Mr. Brown oversees commercial development at ATL including properties, airline affairs, concessions, parking air service development and innovation. ATL’s concession program consists of 300+ locations that generate nearly \$500 million in annual revenue at the world’s busiest airport. In addition, Mr. Brown has over 20 years of experience in concessions including serving as a consultant for airport food and beverage and retail businesses, Vice President for Church’s Chicken, and serving as a president for a family-owned airport concessionaire. Under Mr. Brown’s direction, ATL and its tenants have won numerous best-in-class awards.
- **Nyle Marmion, A.A.E. Program Manager of Airside and Terminal Operations at San Diego County Regional Airport (SAN).** Nyle has over 29 years of airport management experience and led the development of SAN’s award winning multi-concessionaire food and beverage/retail program. Mr. Marmion spent most of his almost 30-year career developing and managing the concessions program at SAN, and has sat on numerous RFP review panels, and is considered an industry expert.
- **John Reeb, Senior Principal Property Manager at San Francisco International Airport (SFO).** Mr. Reeb has over nine years of experience at SFO and oversees business development for all non-aeronautical concession opportunities. This includes an award-winning food and beverage and retail concession program consisting of 168 locations generating over \$46 million in revenue to SFO annually. Mr. Reeb’s experience includes the development and management of SFO’s award winning program, including new and innovative concepts that have been recognized as best in class in the United States. Mr. Reeb, is responsible for all concessions outreach and for conducting all RFP

processes at SFO. Prior to 2001, John spent 12 years in retail and food and beverage operations for a major airport concessionaire.

- **Amy Shaw, Commercial and Business Development Manager at Las Vegas McCarran International Airport (LAS).** Ms. Shaw has overseen the concession program at LAS consisting of over 160 concession locations for the past eight years. In addition, Amy has over 20 years of airport concession experience and currently serves as a Chairperson of the Urban Chamber of Commerce Business Council, is an ACDBE liaison, and mentors local and small business owners. She has developed numerous award-winning airport concession programs, including Denver, Seattle, Los Angeles, and Las Vegas airports.
- **Laura Chmielewski, Interim VP of Marketing and Communication at Team San Jose.** Ms. Chmielewski has led the development and launch of San José and Silicon Valley's first destination brand and has sat on numerous concession panels. She has intimate knowledge of the San Jose area and its trends, and she provides direction to the Team San Jose's marketing program, including featuring of many of its culinary experiences.
- **Bob Lockhart, Deputy Director of the Operations Division, SJC.** Mr. Lockhart has been in his post for almost four years and has worked in the Operations Division for almost 24 years. His Division includes the Airside, Landside, Security and Terminal Management/Customer Service Sections with staff directly involved with the day-to day operations and regulatory requirements of the Airport. His staff works closely with the Concessions Team to ensure maximum efficiency at the Airport. Bob's Terminal Management and Customer Service team works closely with the Properties group to ensure the passenger experience is positive.
- **Kim Hawk, Deputy Director of Finance and Administration, SJC.** Ms. Hawk has been in her position for five years and is directly responsible for all Properties functions, including Concessions. Her recent work with concessions has garnered a best-in-class award for innovation, and she has overseen the revamping of the concessions customer experience program at SJC. Under Ms. Hawk's direction, the concessions program has restructured both the retail and food and beverage programs which will now add nationally recognized brands such as Tumi, Rip Curl, Shake-Shack, Trader Vic's, and Smashburger.

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Live interviews were conducted on April 2 and April 3, 2019, and included the same evaluation criteria as described herein. At the conclusion of the interviews, the evaluation panel ranked the proposals as follows:

Package I	Package II	Package III
1. SSP America Inc.	1.Elevate Gourmet Brands-SJC Group	1. WSE Group Inc.
2. Tastes on the Fly, Inc. Mission San Jose, LLC	2.Mission Yogurt Inc.	2. SSP America Inc.
3. Delaware North, LLC	3.SSP America Inc.	3. Mission Yogurt Inc.
		4. JDDA Concession Management Inc.
		5. Fly Away Foods Inc.
		6. Elevate Gourmet Brands-SJC Group

Protest: The RFP process included a ten-day protest period that commenced when the City issued the Notice of Intended Award on April 5, 2019. The City received no official protests, however, it did receive one letter of concern from a current operator. The letter was received after the protest period had expired, and provided commentary expressing this company's dissatisfaction with the RFP process, although no specific supporting documentation was provided. The Airport's Protest Officer reviewed the letter and found no substantiated claims and notified the company of the findings within 48 hours.

Opportunities for People with Low to Moderate-Income: The City requires the successful proposers to commit to efforts to make at least 51% of its jobs at the Airport available to people with low and moderate-income. Each of the proposers has acknowledged the Section 108 Loan Requirements in their proposals and were required to submit a "Jobs List of the permanent jobs to be created by the Proposer at the Airport" and a "Low and Moderate-Income Hiring Plan".

The successful proposer's Hiring Plan for Low and Moderate-Income Jobs shall become an Exhibit to the Concession Agreement. Staff will work with the successful proposers to document their commitment to the program and ensure continued documentation that demonstrates their compliance.

Employee Retention: Submittal of a proposal requires the successful proposers to comply with the City's Employee Retention Requirements under the San Jose Municipal Code 25.11. As part of the ordinance, the successful proposers must hire and retain all eligible current retention employees at the Airport. All successful proposers have acknowledged that they will comply with this provision.

Compatibility and Continuity: The recommended proposals contain many unique and interesting concession concepts, but proposers were not aware of the specific concession

concepts that their competitors were proposing. As a result, the awarded packages may contain some duplicated elements and incompatible adjacencies that would not provide the best experience for customers or result in the highest and best use of the space. These incompatible adjacencies will be adjusted through negotiations with the selected proposers to achieve the best outcome for passengers, concessionaires and the Airport. Issues related to compatibility and continuity may require some changes to the proposers' concept mix, however, no significant changes are expected at this time.

AirProjects has been retained to examine concession compatibility and recommend changes to ensure the best possible outcome is achieved. The Director of Aviation will consider these suggestions with the objective of enhancing the overall results for the Airport. It is not anticipated that these refinements would require major changes to the proposals or change the direction for the overall concession program.

City is requesting the Director of Aviation have the authority to execute one five-year extension to the term for each proposer, upon mutual agreement by both parties. The option period is used as an incentive by the Airport to ensure that the awarded proposers maintain proper operations and facility maintenance throughout the term of the contract. Upon execution of the extension, the awarded proposers must reinvest no less than ten percent of the actual initial capital investment to refresh the concepts as required by the Agreement.

Award Recommendation:

The evaluation panels used the criteria established within the RFP, and as described herein. Much consideration and debate was conducted by the panel, with thoughtful insight from industry experts. Upon conclusion of the review process, the panel recommended for award those proposals that offer the most complete food & beverage concessions program with the greatest likelihood for long-term success. The panel unanimously signed the Recommendation for Award of Concessions to the following companies for their respective Packages:

Package I: SSP America Inc.

With over 50 years of experience in 33 countries, SSP America Inc., (SSP) is a global leader in the airport and transportation concessions industry. SSP's proposal includes 35% local participation from ACDBE partners WSE Group Inc, and Marina's Café Inc. Their proposed portfolio (see Attachment A) consisted of concepts that reflect Silicon Valley's diverse and innovative culinary landscape, creating a unique taste of place with a blend of local, and national brands. SSP's desire to reflect the local landscape can be seen in their diverse concepts that showcase local chefs such as Armando Navarro (Olla Cocina), David Kinch (2010 James Beard Winner and chef at Manresa, a 3-star Michelin restaurant), and Chris Yeo (Strait's). David Kinch's California Market, creates a sense of place, bringing a destination dining experience to SJC that includes local menu items from Manresa and Bywater in Los Gatos, and Santa Cruz's Verve Coffee. Straight from the heart of San José, well known restaurants including The Farmers Union, and Olla's celebrates the diverse and progressive food movement of the region. The San Pedro Square Market showcases an eclectic mix of local, regional, and national concepts

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including Earthbar, District, Straits Hawker Street Singaporean Kitchen and Vietnamese Eatery, and San José's own District San José, Market Beer Company, and the Konjoe Burger Bar. Jim Stump's Taproom and Kitchen is a chef-driven, modern restaurant with a scratch-made, farm-to-fork, artisanal approach to food and drink from regional chef Jim Stump, and finally, the nationally recognized Peet's Coffee (See attachment A for a complete list of concepts). The City will receive \$3,003,363 in guaranteed revenue annually, or \$42,047,082 in guaranteed revenue over the 15-year term. SSP proposed a minimum capital investment of \$17,355,400, which will be used to develop the concessions. To remain competitive, SSP proposed street pricing plus 15% for all concepts.

Package II: Elevate Gourmet Brands-SJC Group

Elevate Gourmet Brands-SJC Group is an operator based in San Rafael, with over 20 years of experience operating concessions at Airports globally, including Japan, the Middle East and the United States. Their concept "San Jose Mac+Cheese Kitchen" will provide a unique culinary experience highlighting some of the finest local beers and wines, and offering locally sourced ingredients to support the local economy of growers, brewers, and wine makers. Their proposal for Package II, includes a 15% ACDBE partnership with Aimhigh, and the City will receive \$143,000 in guaranteed revenue annually or \$2,002,000 over the 15-year term, and a minimum capital investment of \$932,800. To remain competitive, Elevate proposed street pricing plus 12%.

Package III: WSE Group Inc.

WSE Group Inc. ("WSE") is a local 100% ACDBE company with more than 30 years of food and beverage operation and management experience. WSE has had continuous concession operations at the San Jose Airport since 2000. WSE's concept "Dish n Dash" features a local, authentic Middle Eastern fast-casual dining with six locations in Sunnyvale, Milpitas, and San José. Their proposal for Package III, provides \$233,499 in guaranteed annual revenue to the City, or \$3,268,986 over the 15-year term and a minimum capital investment of \$876,000. WSE Group, Inc. proposed street pricing plus 15%.

Conclusion

The City recommends awarding Package I to SSP America Inc., Package II to Elevate Gourmet Brands-SJC Group, and Package III to WSE Group Inc. The combination of these proposals will provide the City with \$3,379,862 in guaranteed annual revenue to the City beginning when the concessions program is fully implemented in 2021, or \$47,318,068 over the initial term of the agreement. This is an increase of 20% in guaranteed concession revenue to the City over what the City currently receives for these locations. A cumulative minimum capital investment of \$19.2 million is required by the selected Proposers, and will ensure high-end finishes and innovative designs to complement the look of the Airport.

The businesses and concepts contained within these recommended packages for award will provide an attractive mix of local, regional, and national brands and concepts. The proposers

have partnered with well-known local businesses and have proposed an exciting mix that will impress travelers with a strong sense of San José and the Silicon Valley. A complete list of concepts and businesses presented in the recommended proposals are in Attachment A.

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.

POLICY ALTERNATIVES

Alternative #1: Council could elect not to accept the evaluation committee's recommendations for award. After the termination of PGC's Agreement in June 2020, the existing locations would close.

Pros: None.

Cons: The Airport would forgo the approximate \$47 million in guaranteed revenue over the 15-year term and the potential for additional revenue from the increase in sales as a result of new concepts. There would be limited food and beverage service for passengers, extended wait times, and the Airport would fail to provide the proper level of service to its passengers.

Reason for not recommending: The Airport desires to create an atmosphere in line with the Airport's Vision by providing quality food offerings and service, while driving revenue to the Airport. Awarding the agreements will provide the Airport with a revitalized food and beverage program for approximately 45% of the total food and beverage space at the Airport.

Alternative #2: Council could elect not to accept the evaluation committee's Recommendations for Award of Concessions, and request that the City reissue the RFP with different terms and conditions.

Pros: None.

Cons: Given the two-and-a-half-year process to administer an RFP, complete the evaluation process, and build-out new concessions, the Airport would forgo a loss of untold revenue, the higher ACDBE participation from the selected proposers, and would further inconvenience the passengers with concepts that do not align with our updated Food Service Concept Development Plan. PGC's agreement would be in holdover and passengers would likely be dissatisfied, as the current locations have been in place for almost 10 years, and are in need of revamping.

Reason for not recommending: The Airport believes the RFP process was well administered, fair and transparent. Additionally, the number of proposals received indicate that the terms and conditions of the Agreement benefited both the operator and the Airport. The City cannot

guarantee that it would receive the same minimum guarantees in revenue if directed to re-issue the RFP. With the escalating costs of construction, re-issuing the RFP may result in companies being unable to bid on the RFP, as it is anticipated that construction costs could far exceed \$1,000 per square foot. Finally, the level of local ACDBE participation for these Packages would be placed at risk, and the City cannot guarantee that a second round of proposals would include the same level of ACDBE participation.

PUBLIC OUTREACH

Prior to releasing the RFP, the Airport conducted outreach sessions on July 24, and July 25, 2018 at the City Hall Rotunda to raise awareness about the concession opportunities to a broad range of businesses. The sessions consisted of four informational meetings, one Airport tour, and an industry session where Staff obtained input from members of the industry on the key terms of the RFP.

Outreach Prior to the Release of the RFP

The Airport conducted an extensive outreach effort to invite businesses to the sessions as follows:

- Posted the outreach invitation on the Airport's website. The website received 1,426 unique user page views.
- Developed a paid social media campaign that consisted of:
 - Ten day posting on Facebook which received 20,840 impressions and 7,468 views of the video.
 - Ten day posting on LinkedIn which received 19,603 impressions and 298 clicks to the Airports website.
- Sent 8,668 postcard invitations to food and beverage businesses and restaurants in Santa Clara County.
- Emailed 499 businesses from an Airport compiled interested party list including Chambers and Clubs.
- Called 205 interested parties nationwide including food and beverage Prime Operators.
- Posted ads in the following locations:
 - July 2018 edition of Airport Council International's Centerlines Today
 - July 2018 edition of Airport Experience News
 - July 15 and July 22 Sunday editions of the Mercury News
- Presented the opportunities to the Airport Industry at the Airport Council International Conference in June 2018.

The sessions were well attended by approximately 200 people representing approximately 80 companies. Staff provided an overview of the concession program and information as to how businesses can get involved. The sessions included a question and answer segment where Staff and a representative from AirProjects, responded to questions. A copy of the presentations and responses were posted to the Airport's website.

Outreach Following the release of the RFP

Following the release of the RFP on January 4, 2019, the Airport duplicated its outreach efforts in the following ways:

- Posted notifications of the release of the RFP in the following locations:
 - Bidsync and on the Airport's website.
 - January 2019 Airport Council International's website
 - January 2019 edition of Airport Experience News
 - January 6 Sunday edition of the Mercury News
 - Posting on the Airport's Facebook page
- Notified and provided an informational flier to Council Members, the San Jose Minority Business Development Agency, Airport Minority Advisory Council, Airport Council International, Federal Aviation Administration Matchmaker System, Small Business Development Center and various Business & Ethnic Chambers
- Called and emailed 128 ACDBE businesses
- Called and emailed 339 interested parties nationwide including food and beverage prime operators

Outreach efforts were well received and following the release of the RFP, the City hosted an optional Pre-Proposal Conference and Site Tour on January 17, 2019. The City received almost 100 confirmations of attendance and the conference was well attended by approximately 33 different companies. The conference was recorded and a link was posted to the Airport's website and in the Addendum, for interested parties unable to attend.

This item will be posted on the City's Council Agenda Website for the May 21, 2019 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

Staff presented its recommendation for award of the selected proposers to the Airport Commission on May 13, 2019.

HONORABLE MAYOR AND CITY COUNCIL

May 6, 2019

Subject: Food and Beverage RFP Recommendation of Award

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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

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

Attachment

ATTACHMENT A

PACKAGE I: SSP AMERICA INC.

Location	Sq. Footage	Concept Name	Brief Description of Concepts
Terminal A	2,179	Olla Cocina	Elevated, chef-driven Mexican classics by Chef Navarro, in a modern, full-service bar and restaurant
Terminal A	3,187	California Market by David Kinch	California Market by David Kinch, brings an edible adventure through a sampling of the regional's culinary experience. This Chef driven marketplace features a retail/grab and go market selling California-focused sandwiches, salads, bottled drinks, snacks and treats as well as Manresa Bread specialty artisanal loaves, and, a barista coffee program from Santa Cruz's Verve Coffee Roasters , and a full-service Bar Kinch Epicurean Libations (with a menu celebrating the culinary journey of the Bay area's most celebrated chef);
Terminal B	4,448	San Pedro Square Market	Konjoe Burger —Featuring burgers and sandwiches with an Asian, fusion twist
			Straits Hawker Street Singaporean Kitchen and Vietnamese Eatery —Quick service Singaporean and Vietnamese cuisine created by chef Chris Yeo.
			District-A full-service bar and restaurant offering sharable plates, pizzas, NorCal wines and globally sourced whiskeys. Included in this location, is a quick-service window allowing guests to order artisanal pizza, sandwiches and breakfast items to go.
			Earthbar —100% organic juices, smoothies and healthful meals and snacks
			Market Beer Co- A full-service bar concept featuring live entertainment and an extensive beer, wine, and cocktail selection showcasing the best in regional craft brews.
Terminal B	2,195	The Farmers Union	Iconic, top-rated local full-service bar and restaurant with a focus on farm fresh, scratch-made food from noted valley chef, Alex Jimenez
Terminal B	458	Peet's Coffee	Bay Area coffee icon serving handcrafted coffees made from premium ingredients. Peet's Coffee includes a partnership with Bagel Guys Bakery offering specialty bagels, cragels (croissant-bagel hybrid) and bakery treats.
Terminal B	2,787	Jim Stump's Taproom & Kitchen	Chef-driven, modern concept with a scratch-made, farm-to-fork, artisanal approach to food and drink from Jim Stump, known locally for The Table and Forthright.

PACKAGE I

