



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Aitken

**SUBJECT:** SEE BELOW

**DATE:** November 1, 2021

Approved

Date

11/4/2021

**SUBJECT: AGREEMENTS FOR LEASED PREMISES OF ANCILLARY AND OFFICE SUPPORT SPACE FOR FOOD AND BEVERAGE CONCESSIONAIRES AT THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**

## RECOMMENDATION

- (a) Approve the Lease of Airport Premises between the City of San José and SSP America SJC, LLC (“SSP”) through June 30, 2035.
- (b) Adopt a resolution authorizing the Director of Aviation to:
  - (1) Negotiate and execute Lease of Airport Premises with Food and Beverage Concessionaires (“Concessionaires”), not to exceed the term of the Concession Agreements;
  - (2) Negotiate and execute amendments to extend Lease of Airport Premises with Food and Beverage Concessionaires to align the term with the Concession Agreement;
  - (3) Terminate the Lease of Airport Premises in the event of default of the Concession Agreement; and
  - (4) Negotiate and execute amendments to the Food and Beverage Concession Agreements to incorporate leased premises into the Food and Beverage Concession Agreements under the rates and charges as established by Resolution 79296.

## OUTCOME

Approval of the Lease of Airport Premises between the City of San José and SSP will allow SSP to lease ancillary support space from the Airport to support their food and beverage concession operations.

If adopted, the resolution will authorize the Director to negotiate and execute Leases of Airport Premises and subsequent amendments to the Food and Beverage Concession Agreements allowing Concessionaires to occupy leased space through the term of their concession agreements and any options to extend, for the purpose of ancillary support, storage, and office space to sustain their operations at the Norman Y. Mineta San Jose International Airport (“SJC and Airport”). The Director would also be granted authority to terminate the lease in the event of a default of the Concession Agreement.

## **BACKGROUND**

The Airport has four Food and Beverage Concessionaires: HMS Host International, Inc., SSP, Elevate Gourmet Brands- SFO Group (“Elevate”), and WSE Group, Inc. (“WSE”) (collectively, “Concessionaires”).

HMS Host International, Inc. has operated at SJC since 2009, and SSP, Elevate, and WSE, were awarded contracts by Council on May 21, 2019, following the “Request for Proposals for the Food and Beverage Concession Opportunities at the Norman Y. Mineta San Jose International Airport”. HMS Host International’s agreement expires on June 30, 2028 and currently leases office space through June 30, 2024. SSP, Elevate, and WSE’s agreements expire on June 30, 2035, with one option to extend upon mutual agreement through June 30, 2040. Both SSP and HMS Host International operate multiple concession locations throughout Terminals A and B, and WSE and Elevate each operate a single concession location. WSE, SSP, and Elevate are in the early stages of design and construction to bring new food and beverage concessions to SJC in the upcoming 2022 year and beyond and have identified a need for ancillary space to support their operations at SJC through the term of their concession agreements.

The Concessionaires’ Food and Beverage Concession Agreements limit office, storage, and support space within each concession to no more than ten percent (10%) of the total concession space, requiring Concessionaires to seek out additional support space outside of the Airport or in other Airport areas as they come available. The Concessionaires have expressed interest in leasing space at the Airport to meet their operational needs throughout the term of their Agreement.

## **ANALYSIS**

The Concessionaires require additional onsite office and storage space to support their concession operations. Allowing Concessionaires to lease support space reduces the need for the purchase and maintenance of delivery vehicles, offsite warehouse space, administrative costs, and staff time for deliveries and travel. The space also helps to reduce the amount of deliveries and traffic at the airport and reduce response times to each location in the terminals.

SSP, WSE, and Elevate have indicated that they will not be able to operate their concessions without support space as the existing space within the concession is insufficient for them to fully support their operations. Additionally, support space will be necessary for the length of their Concession Agreements. The Airport has terminal and basement space, available to meet the Concessionaire's needs.

Airport staff has identified space in the basement of Terminal B that is available for SSP to use for ancillary storage and support space. Due to the high cost to build out the basement with walk-in coolers, storage and support space, rising labor, equipment, and construction costs mean that they will require more time to amortize their costs. SSP would lease a total of 2,645 square feet at a lower rate through December 31, 2027 for a total of \$81,519 per year and then the rate would increase to \$163,038 annually for the remainder of the term. Approval of the Lease of Premises between the City and the Airport, and delegating authority to the Director to extend the term of the Lease if the option to extend on the concession agreement is exercised, will allow Concessionaires to align the lease with their Food and Beverage Concession Agreement and continue to support their operations.

WSE and Elevate are in the design phase and have not determined how much ancillary space will be needed to support their operations. Delegating authority to the Director allows the Airport the flexibility to move quickly in providing space to the concessionaires while generating revenue on vacant space. Reducing the timeline to execute these space leases is essential in ensuring current construction timelines are met, resulting in higher levels of customer service and passenger satisfaction through increased food and beverage selections at the Airport.

Staff recommends that Council approve the lease of premises between the City and SSP, and delegate authority to the Director to extend the term on lease agreements to align with the Concession Agreement terms, and delegate authority to the Director to amend the Concession Agreements to incorporate office and ancillary support space, ensuring that the Concessionaires have adequate space to support their operations. Staff is also requesting that the Director be granted the authority to terminate either agreement in the event of a default of either the Concession Agreement or the Lease of Airport Premises, as both agreements are co-dependent.

## **CONCLUSION**

The Airport desires to allow Concessionaires to lease space from the Airport to support their operations. Granting the Director authority to negotiate and execute leased space would allow the Airport's Concessionaire partners to quickly and effectively adjust to Concessionaire space needs, as well as increasing the Airports' revenue.

### **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. City staff provides quarterly informational memos on agreements and amendments executed by the Director.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals

### **POLICY ALTERNATIVES**

**Alternative #1:** Council could elect not to approve the resolution and the Concessionaires would need to procure real estate outside of the Airport for ancillary support and office space.

**Pros:** None.

**Cons:** The Airport would lose out on potential revenue and Concessionaires would be negatively impacted through increased operating costs and inefficient operations.

**Reason for not recommending:** Concessionaires will require additional support space to effectively and efficiently conduct their operations.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the November 16, 2021 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 creation of a new potential revenue stream for an existing service, this item is an administrative function. Therefore, no commission recommendation or input is associated with this action.

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**Subject: Approval to Delegate Authority to the Director for Leased Premises at The Mineta San Jose Airport**

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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, A.A.E., Director of Aviation at (408) 392-3610.