

Revised 8/3/11



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
14

Meeting Date: **AUGUST 4, 2011**

Subject:

Grant a Concession Lease to Stellar Partners, Inc. for Development and Operation of Retail Package #4

Recommendation:

Adopt Resolution No. 2011-0094, awarding a concession lease to Stellar Partners, Inc. for development and operation of Retail Package #4, as included in the Request for Proposals (RFP) for Food Service and Retail Concessions, for a maximum term of nine (9) years and two (2) months, which includes a period not to exceed twenty-six (26) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations and a first year Minimum Annual Guarantee (MAG) of \$783,000 following completion of build out; and authorizing the President/CEO to take all necessary actions to execute the concession lease.

Background/Justification:

For the past three years, staff has been planning for a new concession program at San Diego International Airport (SDIA). The Concession Development Program (CDP) incorporates additional concession opportunities from the Terminal 2 West (Green Build) and Terminal 2 East expansion projects and the re-concepting of most existing locations beginning in December 2012. At its October 26, 2009 meeting, the Board was first informed of the CDP including the goals, objectives, and business strategy of the initiative. Staff further informed the Board of different concession management approaches and recommended a hybrid approach of multiple prime concessionaires with the option for direct leasing. At its November 4, 2010 meeting, staff updated the Board on the CDP Request for Proposals planning and business community outreach efforts. Finally, at its January 6, 2011 meeting, the Board was briefed on RFP packaging guidelines and concession locations in advance of the release of the RFP in February 2011.

On February 2, 2011, eight (8) food service and eight (8) retail concession packages were released via the CDP RFP. The CDP will expand from today's approximately 60,000 square feet to approximately 85,000 square feet of food service and retail space when completed. At full build-out in 2014, the number of food service and retail concession locations will increase from 55 today to up to 86.

As previously briefed to the Board, the CDP RFP included the following goals and objectives:

- Diversity of concepts from local, regional, national, and international brands
- Encourage healthy competition
- Optimize concession revenues
- Capture the spirit of the San Diego region
- Create opportunities for local, small and Airport Concession Disadvantaged Business Enterprises (ACDBE)
- Maximize concession opportunities
- Provide an efficient operating environment
- Exceed passengers' expectations

Each package of the RFP required respondents to propose rent terms that included a fixed MAG and percentage rents of gross sales within a specified range. To ensure a diversity of concepts and encourage competition, the RFP also established the following limitations on the award of concession leases to a single proposer:

- 30% of food service square footage
- 35% of retail square footage
- 30% of total program square footage

Retail Package #4 Details

Retail Package #4 encompasses 15% of the total retail square footage. Retail Package #4 includes the following seven locations and concept types:

Location	Square Footage	Concept
T2W Core	219	Jewelry
T2W North Rotunda	1,448	Newsstand and Sundries
T2W West	725	Accessories OR Travel Items
T1 Pre-Security	348	Newsstand and Sundries
T2E Post-Security	215	Candy
T2E Post-Security	500	Accessories OR Travel Items
T2E Post-Security	1,308	Newsstand and Sundries
Total	4,763	

A map depicting the Retail Package #4 locations within the terminals is provided in Attachment 1.

The term of the concession lease includes up to 26 months to allow build out of all locations included in the Package (Package Completion), during which time, percentage rent shall be paid. After Package Completion, the MAG requirements set forth below shall apply.

Retail Package #4 included the following minimum requirements:

Minimum Investment in Fixed Improvements per Square Foot	\$300
Percentage Rent Range	13.00% to 17.00%
Minimum Annual Guarantee	
1st Annual Period	\$783,000
2nd Annual Period following Package Completion Date	90% of the actual rent paid to Authority during the first Annual Period, or 103% of the MAG for the first Annual Period, whichever is greater.
3rd through 7th Annual Periods	90% of the actual rent paid to Authority during the prior Annual Period, or 103% of the MAG for the prior Annual Period, whichever is greater.

Retail Package Proposals

On May 25, 2011, six proposals were received for Retail Package #4 from the following entities:

- Host –Nine Dragons, LLC (Host) - Proposed business entity is comprised of Host International, Inc. as prime concessionaire with a sublease to a joint venture comprised of Host International, Inc. (74% ownership) and Nine Dragons, Inc. (26% ownership)
- HG-CV-Epicure-Martinez San Diego JV (Hudson Group) - Proposed business entity is comprised of a joint venture between Hudson Group (HG) Retail, LLC (Hudson) (71% ownership), Concourse Ventures, Inc. (3% ownership), Epicure Group International, LLC (13% ownership) and Martinez Niebla, LLC (13% ownership)
- LS Travel Retail and Partners at SAN, LLC (LS Travel Retail) - Proposed business entity is comprised of a joint venture of LS Travel Retail North America (74% ownership) and P&P Services, LLC (26% ownership)

- PGC-PCI San Diego LLC (PGC-PCI) - Proposed business entity is comprised of a joint venture of Pacific Gateway Concessions , LLC (67% ownership) and Procurement Concepts, Inc. (33% ownership)
- Paradies-San Diego, LLC (Paradies) - Proposed business entity is comprised of a joint venture between The Paradies Shops, LLC (70% ownership) and CRS Sophisticated Solutions, Inc. (30% ownership)
- Stellar Partners, Inc. (Stellar Partners) Susan Stackhouse- 51%; Barbara Geller- 25%; and Ramon Bosquez- 24% (of outstanding shares)

A comparison of the proposed concepts associated with the seven locations in Retail Package #4 is provided below:

Location	T2W-2044	T2W-2026	T2W-2015	T1E-1046	T2E-2009	T2E-2015	T2E-2010
Square Feet	219	1,448	725	348	215	500	1,308
Proposer	Concepts						
Host	Talie	Sunset News	Clutch	San Diego Magazine News	Spreckels	Magellan's	San Diego Magazine News
Hudson Group	Fire CZ	Hudson News/ Discover	Juicy Couture	Old Town News	See's Candy	Sunglass Hut	Gaslamp News
LS Travel Retail	Rebecca Norma Design	San Diego Union Tribune News	Sky Life	USA Today Travel Zone	See's Candy	Sky Life	Relay
PGC-PCI	Tafoya & Son Jewelry	US News & World Report	Le Travel Store	Where Traveler San Diego	Indulge in San Diego	Le Travel Store	KPBS News
Paradies	Erwin Pearl	Channel 10 News	Brighton Collecti-bles	SANd News	See's Candy	Brookstone	CNBC News San Diego
Stellar Partners	Jewelry by Samantha Davimes	Stellar News	Brookstone	Stellar News Express	Jer's Chocolates	The Sharper Image	Old Town News & Market

Financial Offer

Proposer	Proposed Percentage Rent	Year One MAG
Host	17%	\$ 783,000
Hudson Group	17%	\$ 783,000
LS Travel Retail	17%	\$ 783,000
PGC-PCI	\$0-\$8.0M 15% \$8.0M-\$9.0M 16% Over \$9.0M 17%	\$ 783,000
Paradies	13% Specialty 17% Non-Specialty	\$ 783,000
Stellar Partners	\$0-\$5.0M 15% \$5.0M-\$7.0M 16% Over \$7.0M 17%	\$ 783,000

Evaluation Process

The Authority's evaluation panel was comprised of six panelists: (a) three Authority Division Vice Presidents, (b) one Authority Department Director, and (c) two airport concession program managers from San Francisco International and Seattle-Tacoma International Airports.

Proposals were evaluated using the following criteria and weighting factors established in the RFP:

Criteria	Weighting %
Company Background, Experience, Financial Capability and Financial Offer	35
Concept/Brand Development and Merchandise/Menus	20
Designs, Materials, and Capital Investment	15
Management, Staffing Plan, and Training	15
Operations and Maintenance Plan	10
Marketing and Promotions Plan	5

Additional consideration was given in the evaluation process for proposals that met or exceeded the Authority's standards for small business preference (Authority Policy 5.12) and worker retention (Board Resolution 2010-0142R).

The evaluation panel reviewed the six proposals using the above criteria and ranked the proposals from "1" (best suited) to "6" (least suited). The results of the rankings of each panel member (PM) are presented in the matrix below:

Proposer	PM1	PM2	PM3	PM4	PM5	PM6	Total
Host	2	2	3	4	5	5	21
Hudson Group	5	1	2	3	2	3	16
LS Travel Retail	6	4	5	6	6	4	31
PGC-PCI	3	5	6	2	4	2	22
Paradies	4	6	4	5	3	6	28
Stellar Partners	1	3	1	1	1	1	8

The evaluation panel recommends that a concession lease be awarded to Stellar Partners, Inc. for development and operation of Retail Package #4 (as included in the Request for Proposals for Food Service and Retail Concessions) for a maximum term of nine (9) years and two (2) months with a first year MAG of \$783,000.

Depictions of Stellar Partners concepts for this package are presented in Attachment 2.

Fiscal Impact:

Annual revenue for the Authority will be no less than the MAG amount of \$783,000 for Retail Package #4. In addition, based on the projected gross sales of the concessionaires, the Authority estimates that total CDP annual operating and maintenance costs (including operating costs for the Central Receiving and Distribution Center) will be recoverable from concessionaires.

Environmental Review:

- A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code §30106.

Equal Opportunity Program:

The Authority's small business program promotes the utilization of small, local, disadvantaged, and other business enterprises, on all contracts, to provide equal opportunity for qualified firms. By providing education programs, making resources available, and communicating through effective outreach, the Authority strives for diversity in all contracting opportunities.

The Authority has an Airport Concession Disadvantaged Business Enterprise ("ACDBE") Plan as required by the Department of Transportation, 49 CFR Part 23. The ACDBE Plan calls for the Authority to submit a triennial overall goal for ACDBE participation on all concession projects.

This solicitation is an airport concession opportunity; therefore, it will be applied toward the Authority's overall ACDBE goal. Stellar Partners, Inc. is a certified ACDBE and is proposing 83% ACDBE participation on this project.

Prepared by:

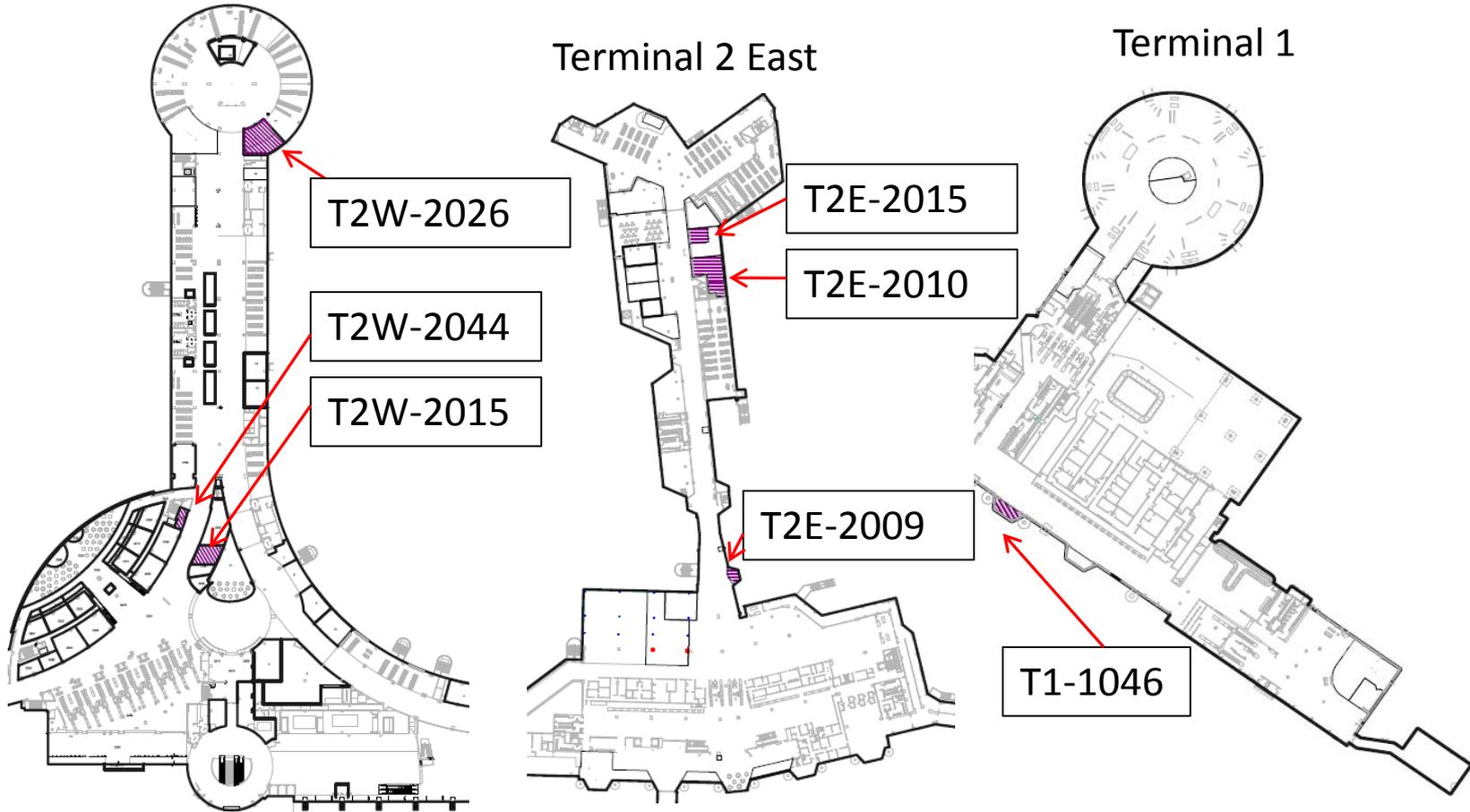
VERNON D. EVANS
VICE PRESIDENT, FINANCE/TREASURER

Terminal 2 West

RETAIL PACKAGE 4

Terminal 2 East

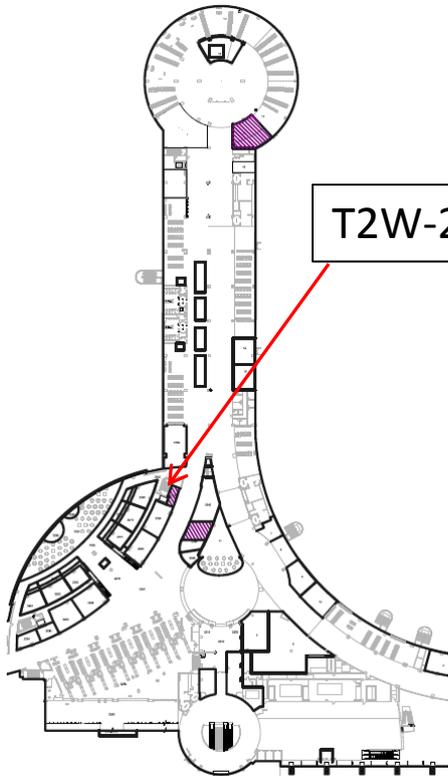
Terminal 1



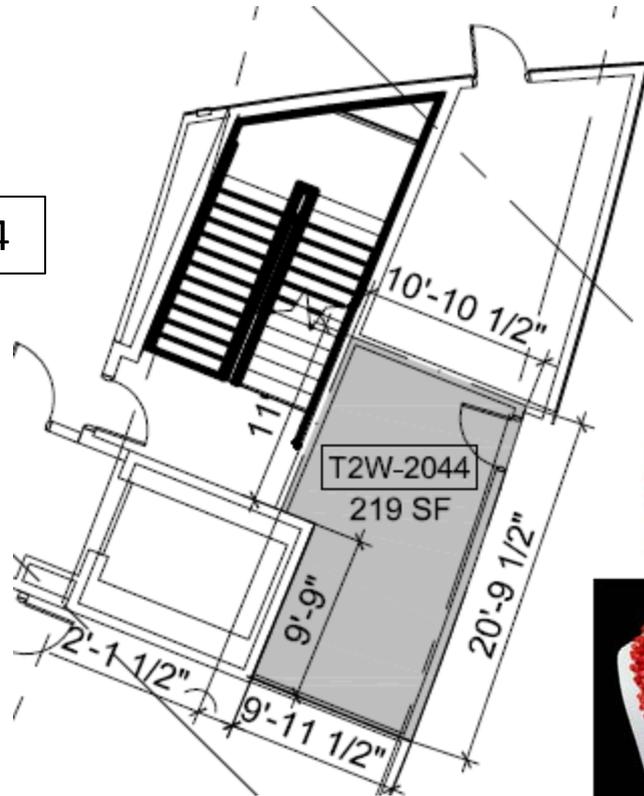
RETAIL PACKAGE 4

T2W-2044 – 219 SF

Terminal 2 West



T2W-2044



SAMANTHA DAVIMES



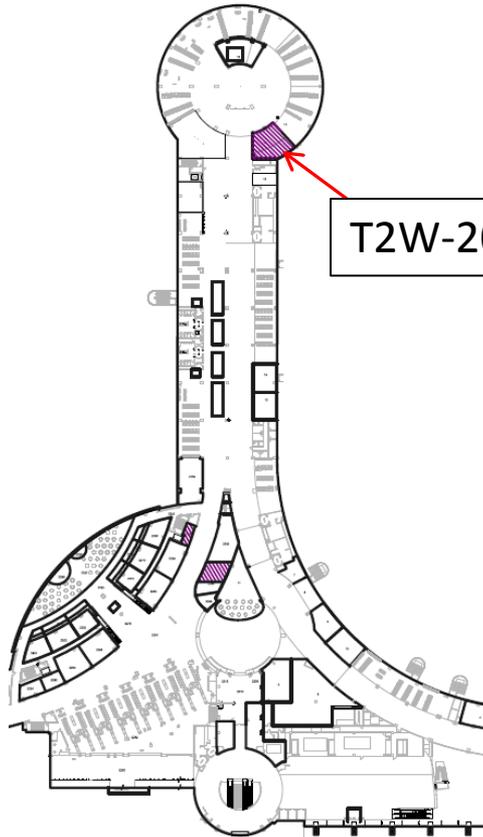
Retail Pkg 4: Stellar Partners



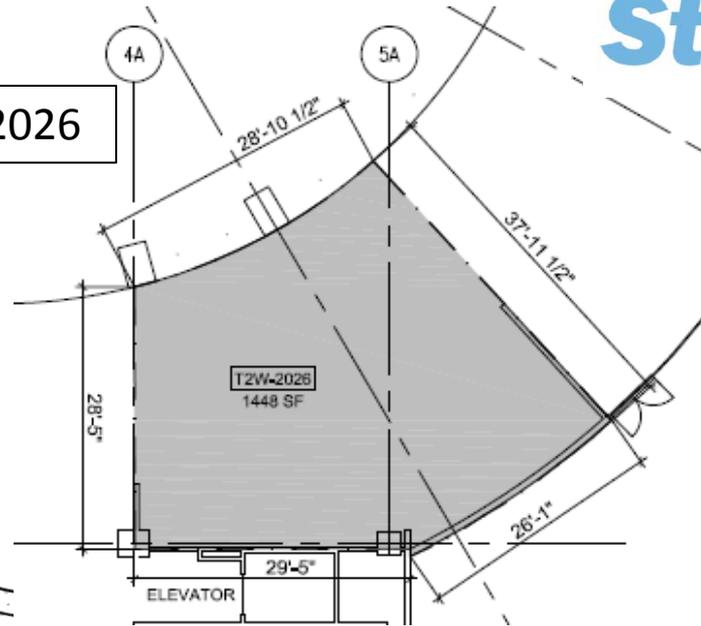
RETAIL PACKAGE 4

T2W-2026 – 1448 SF

Terminal 2 West



T2W-2026



Stellar News



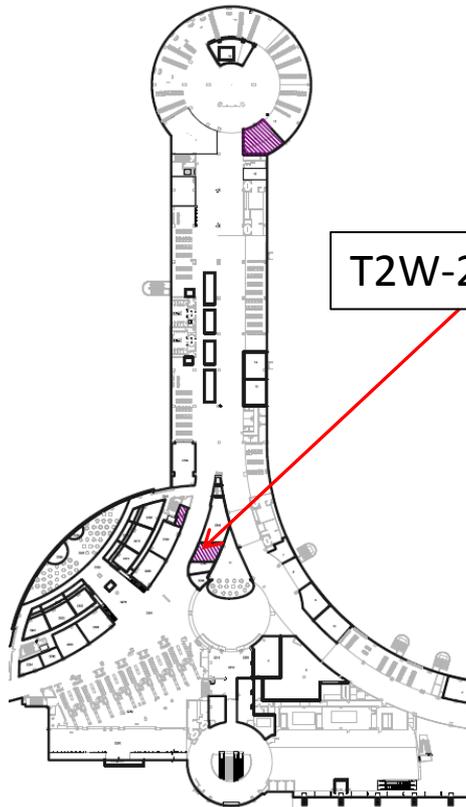
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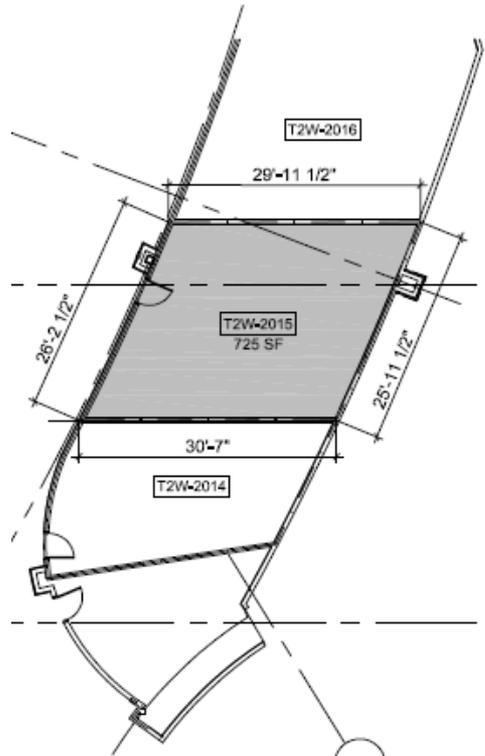
RETAIL PACKAGE 4

T2W-2015 – 725 SF

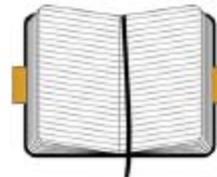
Terminal 2 West



T2W-2015



Brookstone®



MOLESKINE®

hartmann luggage



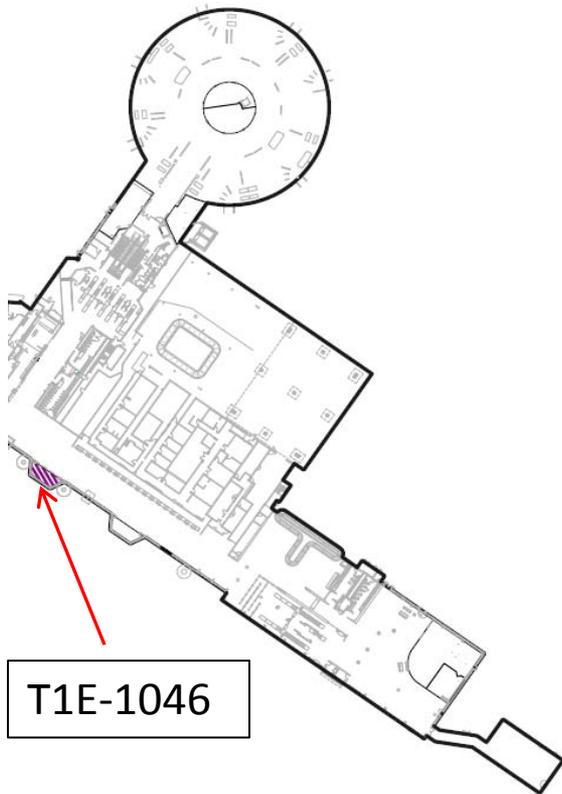
Retail Pkg 4: Stellar Partners



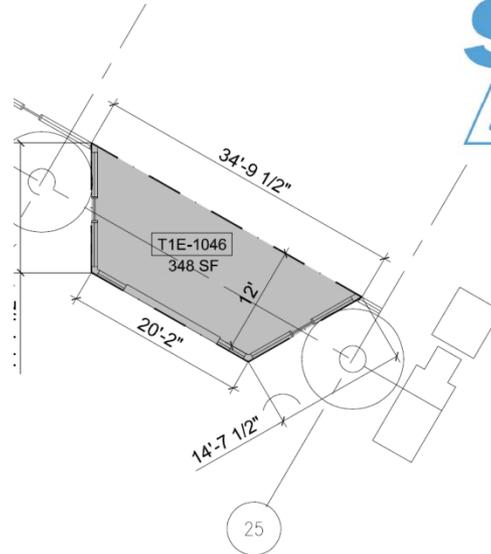
CONCESSION
Development Program

RETAIL PACKAGE 4 T1E-1046 – 348 SF

Terminal 1



T1E-1046



Stellar News Express

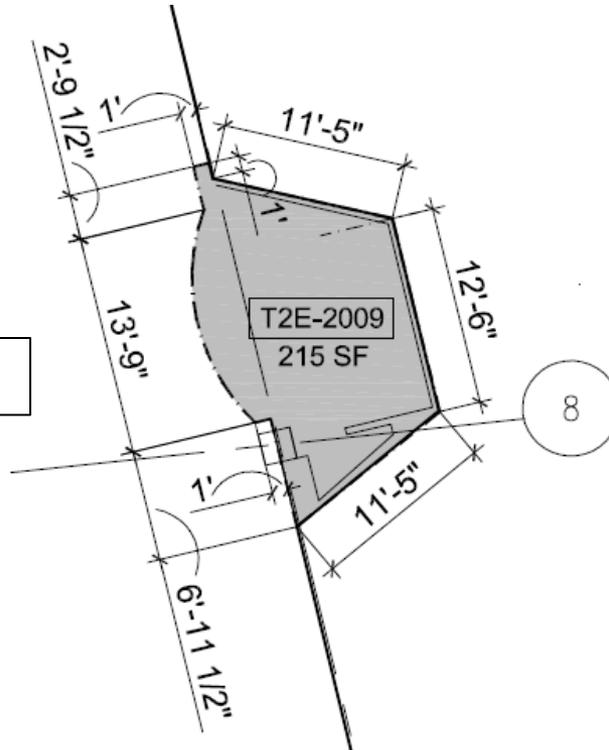
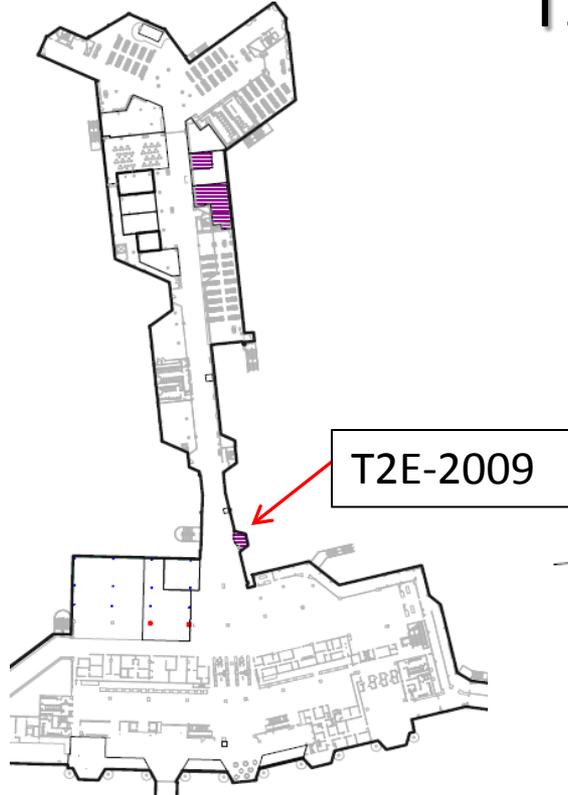


Retail Pkg 4: Stellar Partners



RETAIL PACKAGE 4 T2E-2009 – 215 SF

Terminal 2 East



CHOCOLATES



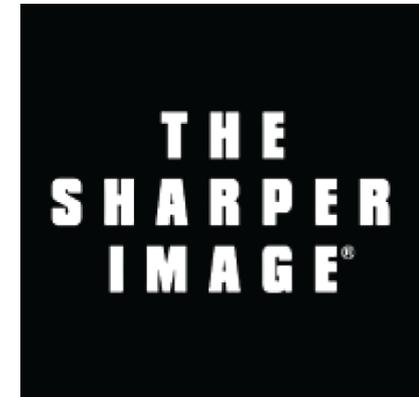
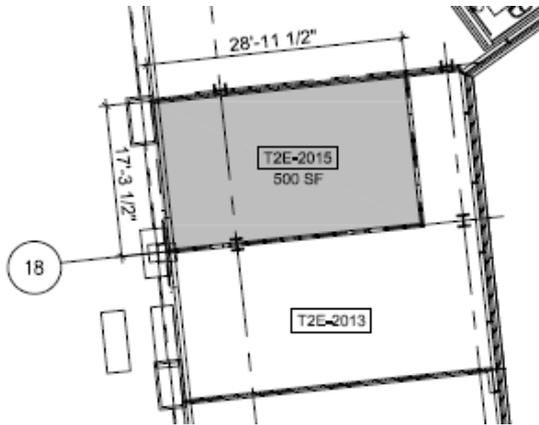
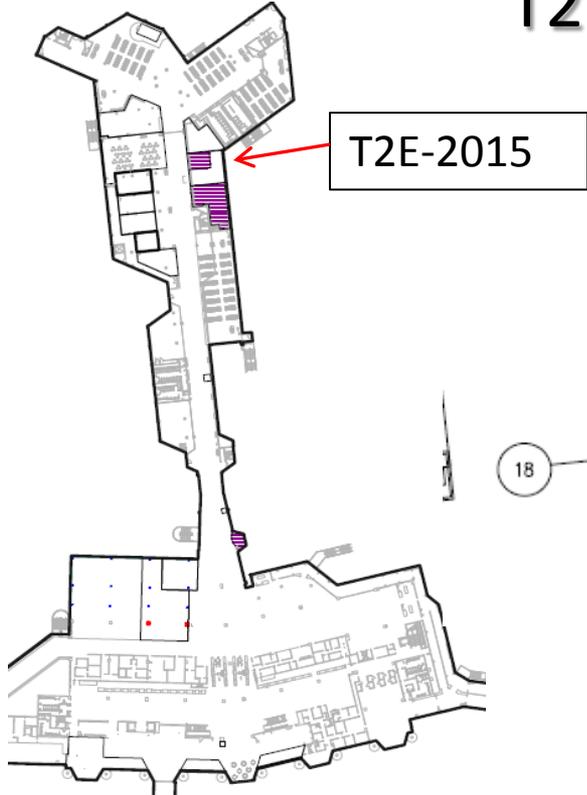
Retail Pkg 4: Stellar Partners



CONCESSION
Development Program

RETAIL PACKAGE 4 T2E-2015 – 500 SF

Terminal 2 East



Retail Pkg 4: Stellar Partners

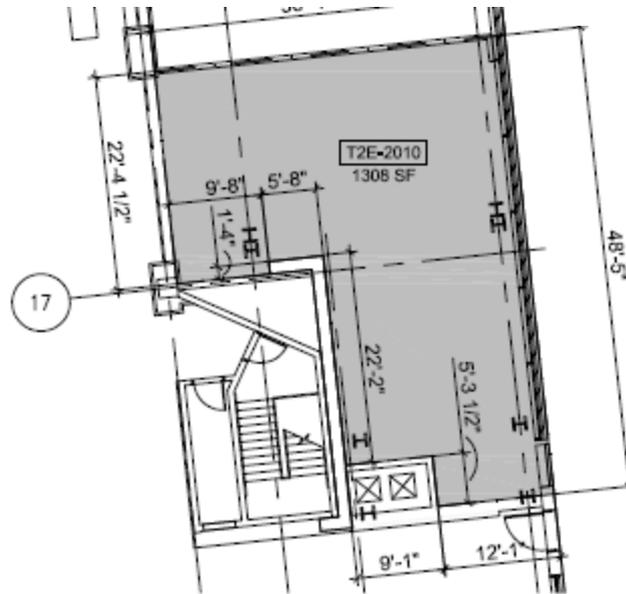
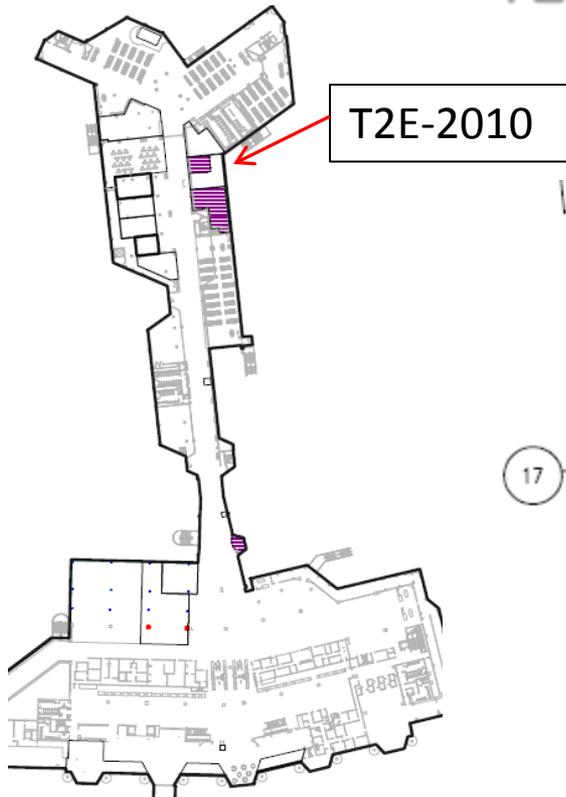


CONCESSION
Development Program

RETAIL PACKAGE 4

T2E-2010 – 1308 SF

Terminal 2 East



OLD TOWN NEWS & MARKET



Retail Pkg 4: Stellar Partners



RESOLUTION NO. 2011-0094

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY, AWARDED A CONCESSION LEASE TO STELLAR PARTNERS, INC. FOR DEVELOPMENT AND OPERATION OF RETAIL PACKAGE #4, AS INCLUDED IN THE REQUEST FOR PROPOSALS FOR FOOD SERVICE AND RETAIL CONCESSIONS, FOR A MAXIMUM TERM OF NINE (9) YEARS AND TWO (2) MONTHS, WHICH INCLUDES A PERIOD NOT TO EXCEED TWENTY-SIX (26) MONTHS TO ALLOW FOR PACKAGE COMPLETION, WITH A FIRST YEAR MINIMUM ANNUAL GUARANTEE (MAG) OF \$783,000; AND AUTHORIZING THE PRESIDENT/CEO TO TAKE ALL NECESSARY ACTIONS TO EXECUTE THE CONCESSION LEASE

WHEREAS, for the past three years, staff has been planning to solicit responses via a Request for Proposal (RFP) for a new food service and retail concession program at San Diego International Airport; and

WHEREAS, the Concession Development Program (CDP) RFP provides for new concession locations from the Terminal 2 West (Green Build) and Terminal 2 East Expansion projects and complete re-concepting of existing locations, beginning in December 2012; and

WHEREAS, at its October 26, 2009 meeting, the Board was informed of the goals, objectives and business strategy of the CDP; and

WHEREAS, at its November 4, 2010 meeting, staff informed the Board of CDP RFP planning, involving business community outreach efforts; and

WHEREAS, at its January 6, 2011 meeting, the Board was briefed on RFP packaging guidelines and concession locations; and

WHEREAS, on February 2, 2011, the CDP RFP was released. The CDP RFP included eight food service packages totaling 46 locations and eight retail packages totaling 40 locations; and

WHEREAS, each package required respondents to propose a fixed Minimum Annual Guarantee and percentage rents within a specified range; and

WHEREAS, to ensure a diversity of concepts and encourage competition, the CDP RFP also established the following limitations on the award of concession leases to a single proposer:

- 30% of food service square footage
- 35% of retail square footage
- 30% of total program square footage; and

WHEREAS, Retail Package #4 includes seven locations encompassing approximately 4,763 square feet; and

WHEREAS, on May 25, 2011 six proposals were received for Retail Package #4; and

WHEREAS, the proposers were evaluated by an evaluation panel using the following criteria:

- company background, experience, financial capability and financial offer;
- concept/brand development and merchandise/menus;
- design, materials and capital investment;
- management, staffing plan, and training;
- operations and maintenance plan; and
- and marketing and promotions plan; and

WHEREAS, additional consideration was given in the evaluation process for proposals that met or exceeded the required standards for small business participation and worker retention; and

WHEREAS, the evaluation panel reviewed the proposals and recommended that a concession lease be awarded to Stellar Partners, Inc. for development and operation of Retail Package #4 (as included in the CDP RFP) for a maximum term of nine (9) years and two (2) months (which includes a period not to exceed twenty-six (26) months to allow for base building construction, Authority shell construction and renovation, and build out of the concession locations (Package Completion)), with a total first year Minimum Annual Guarantee (MAG) of \$783,000; and

WHEREAS, the Board finds that awarding a concession lease to Stellar Partners, Inc. is in the best interest of the Authority.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby **AWARDS** a concession lease to Stellar Partners, Inc. for development and operation of **Retail Package #4**, as included in the Request for Proposals for Food Service and Retail Concessions, for a maximum term of nine (9) years and two (2) months, which includes a period not to exceed twenty-six (26) months to allow for Package Completion, with a first year Minimum Annual Guarantee (MAG) of \$783,000; and **AUTHORIZES** the President/CEO to take all necessary actions to execute the concession lease; and

BE IT FURTHER RESOLVED that the Board of the San Diego County Regional Airport Authority finds that this Board action is not a "project" as defined by the California Environmental Quality Act ("CEQA"), Pub. Res. Code §21065; and is not a "development" as defined by the California Coastal Act, Pub. Res. Code §30106.

PASSED, ADOPTED, AND APPROVED by the Board of the San Diego County Regional Airport Authority at a regular meeting this 4th day of August, 2011, by the following vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK

APPROVED AS TO FORM:

BRETON K. LOBNER
GENERAL COUNSEL

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