



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT**

Item No.
15

Meeting Date: **JULY 12, 2012**

Subject:

Grant a 7-Year Concession Lease to Duty Free Americas San Diego, LLC to Design, Build and Operate a Duty Free Store in Terminal 2 East

Recommendation:

Adopt Resolution No. 2012-0081, awarding a seven-year concession lease to Duty Free Americas San Diego, LLC to design, build, and operate a duty free store in Terminal 2 East at San Diego International Airport, subject to Federal Aviation Administration (FAA) approval of term, and authorizing the President/CEO to take all necessary actions to execute the concession lease.

Background/Justification:

With the announcement by Japan Airlines (JAL) of new service to Tokyo, Japan, beginning in December 2012, in addition to existing service from San Diego International Airport (SAN) to Canada, England and Mexico by other carriers, international enplanement levels at SAN will reach a level that can support a duty free store.

On April 30, 2012, staff released a Request for Proposals (RFP) to compete an opportunity to finance, develop, and operate a duty free store in Terminal 2 East, adjacent to international gates 20 through 22. Attachment 1 provides a map depicting the proposed location.

On June 1, 2012, responsive proposals were received from DFASS San Diego Joint Venture (DFASS), Duty Free Americas San Diego, LLC (DFA San Diego) and Stellar Partners, Inc. (Stellar), all of which were determined to be qualified to proceed to the selection process. A nonresponsive proposal was received from HG-CV-Epicure-Martinez San Diego JV.

The RFP established the following minimum requirements:

Experience	Three years continuous experience within the last five years in the development and operation of duty free stores at airports.
Minimum Annual Guarantee (MAG)	\$100,000; subject to annual adjustments equal to the greater of (i) 90% of the actual rent payable to Authority during the prior lease year, or (ii) 103% of the MAG for the prior lease year
Percentage Rent	Biddable by merchandise category with a minimum of 15% of gross receipts by merchandise category

Minimum Capital Investment	\$350 per square foot of duty free store leased area
Worker Retention	Respondents must comply with Authority's worker retention standard (Board Resolution 2010-0142R)

The RFP also provides for a seven-year lease term to ensure a reasonable time for the tenant to amortize its capital investment. The lease is anticipated to commence in December 2012.

Proposers

DFASS is a newly formed Joint Venture between DFASS Central, LLC and Skyview Concessions, Inc., a certified Airport Concession Disadvantaged Business Enterprise (ACDBE). DFASS, based in Miami Beach, Florida, currently operates duty free stores at Dallas-Ft. Worth International, Chicago O'Hare International, Ft. Lauderdale-Hollywood International, Newark Liberty International, and Raleigh-Durham International Airports.

DFA San Diego is a newly formed entity whose majority owner is UETA of California, Inc. (UETA), a San Ysidro-based company that operates five duty free stores and a warehouse in the region. UETA is a subsidiary of Duty Free Americas, Inc., which operates duty free stores at Miami International, New York JFK International, Atlanta Hartsfield International, Washington Dulles International, and nine other airports. DFA San Diego's ACDBE partner is Concourse Concessions, Inc., a California certified ACDBE and duty free operator at Los Angeles International, Phoenix Sky Harbor International and three other airports.

Stellar is a privately-owned 100% ACDBE US-based airport duty free operator. Stellar operates multiple retail concepts in ten major airports around the country. It began with a single duty free store at Tampa International Airport in 1965, one of the first duty free stores in the United States and it has operated continuously since then.

Financial Offer

Proposer	Percentage Rent Biddable	Year One MAG
DFASS	Duty Free Merchandise – 26% Duty Paid Merchandise – 18%	\$100,000
DFA San Diego	Duty Free Merchandise – 25% Duty Paid Merchandise – 25%	\$100,000
Stellar	Duty Free Merchandise – 23% Duty Paid Merchandise – 23% All Categories – 28% (\$3,000,001 to \$6,000,000) All Categories -33% (Over \$6,000,000)	\$100,000

Evaluation Process

A five member evaluation panel consisting of one Authority Vice President; staff from the Air Service Development, Marketing & Public Relations, and Aviation & Commercial Business departments; and an Assistant Deputy Director, Concessions, from San Francisco International Airport interviewed the three firms and evaluated the proposals using the following criteria:

Criteria
Organization Background/Experience
Concept/Brand Development and Merchandise
Design, Materials, and Capital Investment
Operations and Maintenance Plan
Management, Staffing Plan, and Training
Marketing and Promotions Plan
Rent Proposal
Financial Evaluation

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).

After reviewing the proposals and interviewing each of the respondents on June 20, 2012, the panel rated and ranked each of the respondents, as follows:

Scoring					
	Small Business Preference	Worker Retention	Background/ Experience	Concept/ Brand Dev/Merch	Design, Materials, Capital Investment
DFA San Diego	0	0	450	900	645
DFASS	0	0	400	840	570
Stellar	125	20	330	720	525

Scoring						
	Operations & Maintenance Plan	Mgmt, Staffing Plan & Training	Marketing and Promotions Plan	Rent Proposal	Financial Evaluation	Total
DFA San Diego	615	420	420	500	350	4300
DFASS	615	380	380	450	400	4035
Stellar	555	360	350	400	500	3885

Ranking							
Firms	Panelist 1	Panelist 2	Panelist 3	Panelist 4	Panelist 5	Total	Final Rank
DFA San Diego	1	1	1	2	1	6	1
DFASS	2	3	3	1	2	11	2
Stellar	3	2	2	3	3	13	3

The panel recommends that a lease be awarded to Duty Free Americas San Diego, LLC to design, build and operate a duty free store in Terminal 2 East for a term of seven-years with a first year Minimum Annual Guaranteed (MAG) rent of \$100,000. Rent will be the greater of the MAG or 25% of sales.

Fiscal Impact:

Annual revenue for the Authority will be no less than \$100,000. The proposer shall plan, design, and build out the duty free store, at its sole cost. Proposed tenant improvement costs, to be paid by Duty Free Americas San Diego, LLC are approximately \$425,000.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:
 Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

CEQA 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. Duty Free Americas San Diego, LLC is proposing 0% ACDBE participation on this project.

The term of this agreement exceeds five years and this is the only duty free opportunity offered at the airport. Per section 23.75 of 49 Code of Federal Regulations, Part 23, this concession is categorized as a "long-term-exclusive concession agreement" and must be approved by the Federal Aviation Administration (FAA). The Board's award of this contract is subject to the condition that the FAA approve the seven-year term of the contract.

Prepared by:

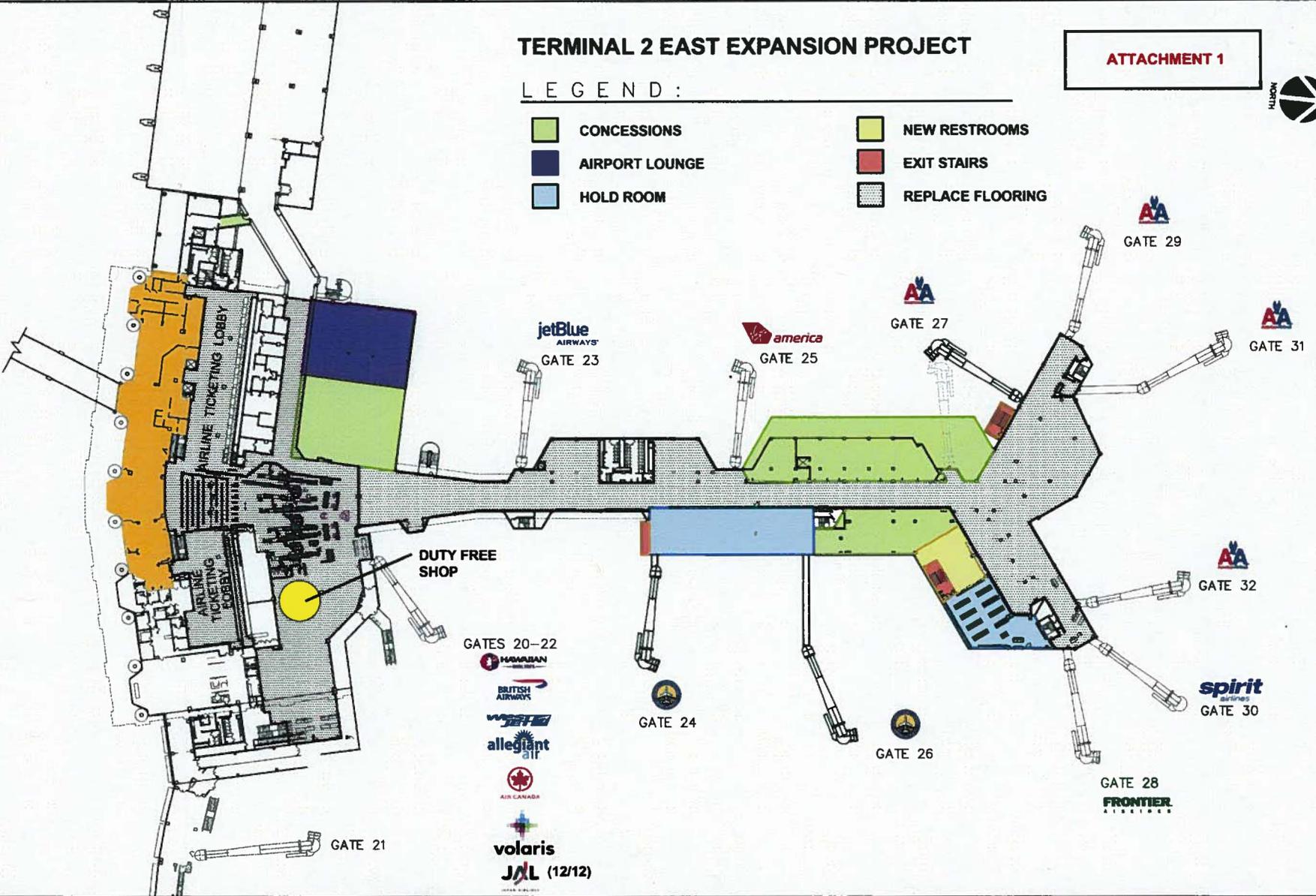
VERNON EVANS
VICE PRESIDENT, FINANCE

TERMINAL 2 EAST EXPANSION PROJECT

ATTACHMENT 1

LEGEND :

- CONCESSIONS
- NEW RESTROOMS
- AIRPORT LOUNGE
- EXIT STAIRS
- HOLD ROOM
- REPLACE FLOORING



INFORMATION ONLY
 This drawing is not intended to be used for construction purposes. It is provided for informational purposes only. The user of this drawing assumes all liability for any errors or omissions. The user of this drawing is advised to verify all information and dimensions before use.

NO.	DATE	DESCRIPTION	BY	APP'D



SAN DIEGO INTERNATIONAL AIRPORT
 SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

NAME	A. VILLALBA
DESIGN	S. ILYAS
DATE	

SAN DIEGO INTERNATIONAL AIRPORT
TERMINAL 2 EAST EXPANSION
 GATE ALLOCATION - DECEMBER 2012

DATE	MARCH 10, 2010
SCALE	MTS

RESOLUTION NO. 2012-0081

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY, AWARDED A SEVEN-YEAR (7) CONCESSION LEASE TO DUTY FREE AMERICAS SAN DIEGO, LLC TO DESIGN, BUILD, AND OPERATE A DUTY FREE STORE IN TERMINAL 2 EAST AT SAN DIEGO INTERNATIONAL AIRPORT, SUBJECT TO FEDERAL AVIATION ADMINISTRATION (FAA) APPROVAL OF TERM, AND AUTHORIZING THE PRESIDENT/CEO TO TAKE ALL NECESSARY ACTIONS TO EXECUTE THE CONCESSION LEASE.

WHEREAS, with Japan Airlines (JAL) new service to Tokyo, Japan, beginning in December 2012, in addition to existing international service from San Diego International Airport (SAN), international enplanement levels at SAN will reach a level that can support a duty free store in Terminal 2 East; and

WHEREAS, on April 30, 2012, staff released a Request for Proposals (RFP) to compete an opportunity to finance, develop, and operate a duty free store in Terminal 2 East; and

WHEREAS, on June 1, 2012, responsive proposals were received from DFASS San Diego Joint Venture (DFASS), Duty Free Americas San Diego, LLC (DFA San Diego) and Stellar Partners, Inc. (SPI), all of which were determined to be qualified to proceed to the selection process; and

WHEREAS, a nonresponsive proposal was received from HG-CV-Epicure-Martinez San Diego JV; and

WHEREAS, the Request for Proposals provided for a seven-year lease term to ensure a reasonable time for the tenant to amortize its capital investment; and

WHEREAS, the lease is anticipated to commence in December 2012; and

WHEREAS, following proposal review and interviews, the evaluation panel rated and ranked the proposals; and

WHEREAS, the evaluation panel recommends that a lease be awarded to Duty Free Americas San Diego, LLC to design, build and operate a duty free store in Terminal 2 East for a term of seven years with a first year Minimum Annual Guaranteed (MAG) rent of \$100,000; and

NOW, THEREFORE, BE IT RESOLVED that the Board authorizes the President/CEO to take all necessary steps to grant a seven-year (7) concession lease to Duty Free Americas San Diego, LLC to design, build, and operate a duty free store in Terminal 2 East at San Diego International Airport; and

BE IT FURTHER RESOLVED that the Board determines that this action is subject to the condition that the Federal Aviation Administration (FAA) first approve the term of this contract; and

BE IT FURTHER RESOLVED that the Board finds that this Board action is not for 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, and this Board action 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 special meeting this 12th day of July, 2012, 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:

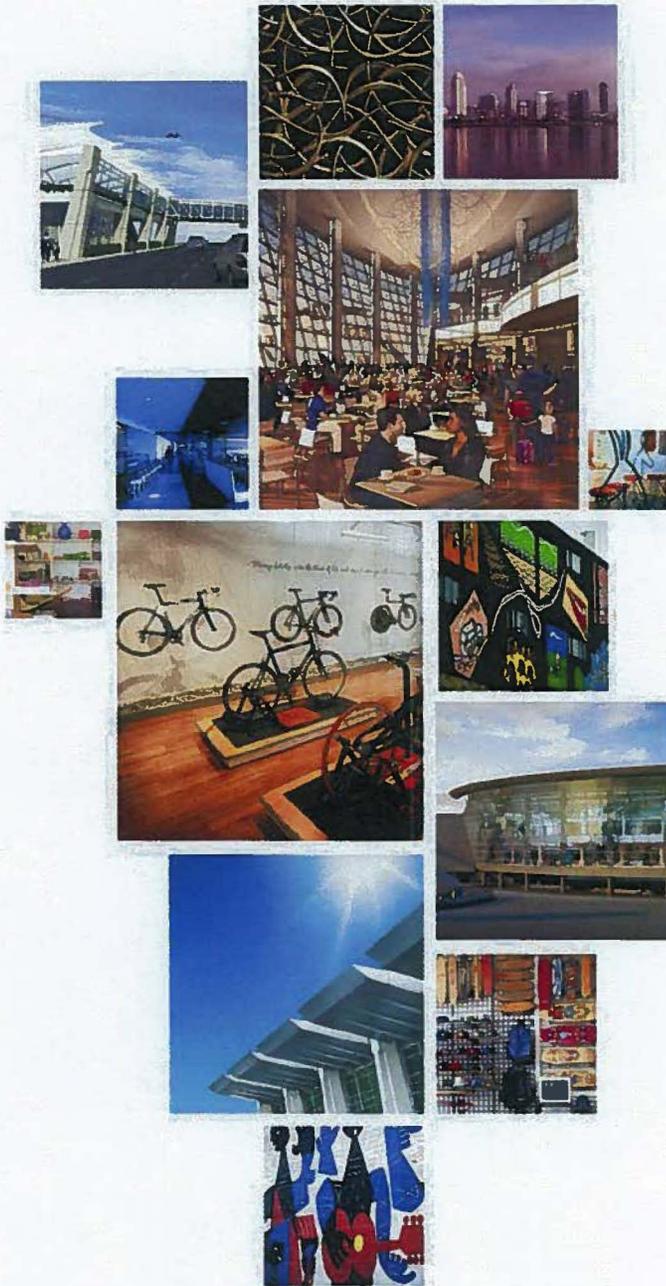
BRETON K. LOBNER
GENERAL COUNSEL

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Revised 7/3/2012

SAN DIEGO INTERNATIONAL AIRPORT

Concession Development Program



Grant a 7-Year Concession Lease to Duty Free Americas San Diego, LLC to Design, Build and Operate a Duty Free Store in Terminal 2 East

Nyle Marmion,
Manager, Concession Development
Aviation & Commercial Business Department

July 12, 2012



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Background

- International Enplanement Increase
- First Duty Free Store at SAN



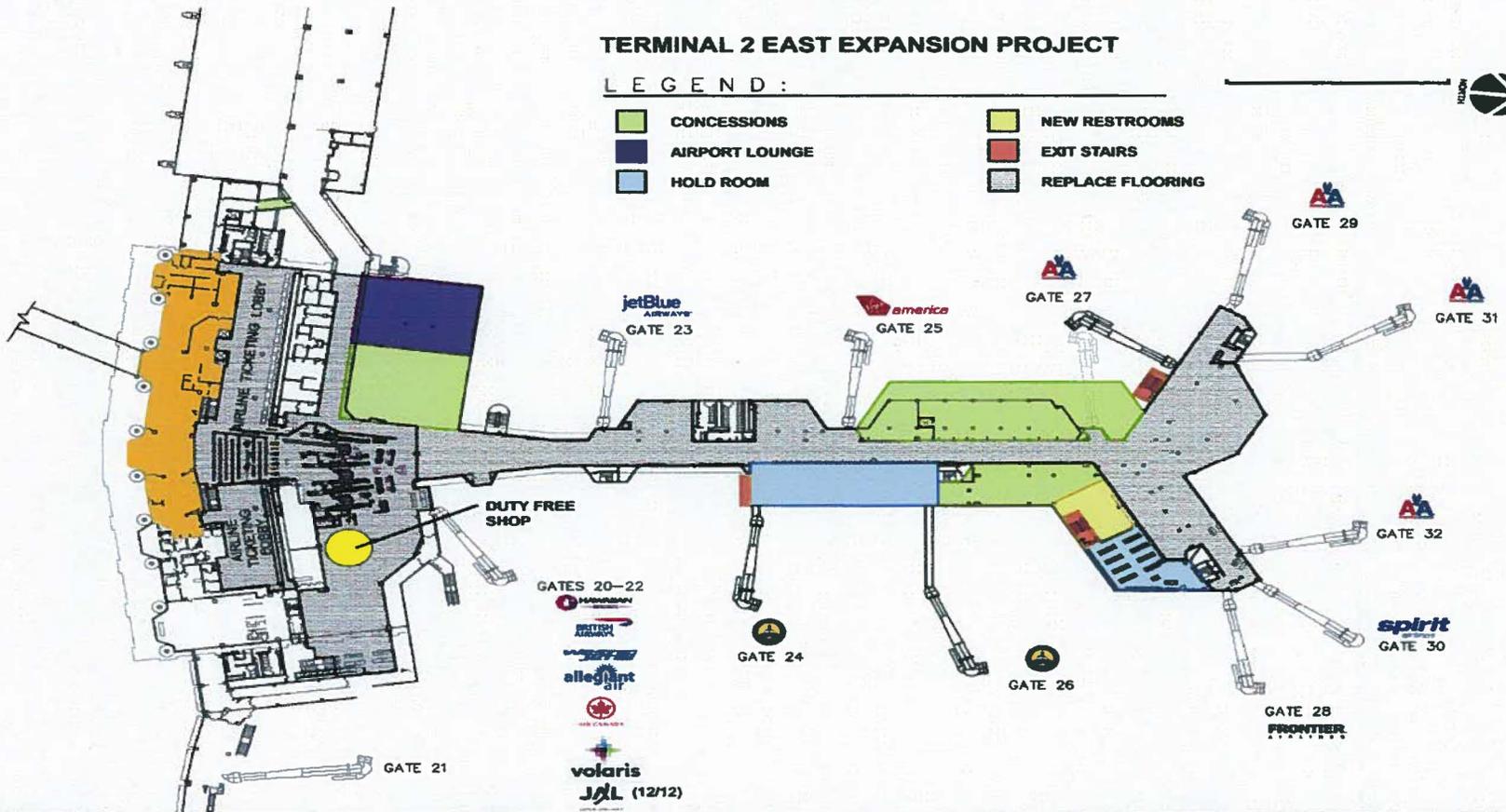
SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Site Plan

TERMINAL 2 EAST EXPANSION PROJECT

LEGEND :

- | | |
|--|--|
| CONCESSIONS | NEW RESTROOMS |
| AIRPORT LOUNGE | EXIT STAIRS |
| HOLD ROOM | REPLACE FLOORING |



INFORMATION ONLY



SAN DIEGO INTERNATIONAL AIRPORT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

A. VILLALBA
S. ALTAS

SAN DIEGO INTERNATIONAL AIRPORT

TERMINAL 2 EAST EXPANSION

GATE ALLOCATION - DECEMBER 2012

DATE: MARCH 10, 2010
SCALE: 1/8" = 1'-0"



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Duty Free Selection Timeline

April 2012

- Request for Proposals (RFP) Released

June 2012

Proposals Received From:

- DFASS San Diego Joint Venture (DFASS)
- Duty Free America San Diego, LLC (DFA San Diego)
- Stellar Partners, Inc. (Stellar)



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

RFP Provisions

- **Minimum Experience**
- **7-Year Term**
- **Financial Offer**
- **Minimum Capital Investment**
- **Worker Retention**



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Evaluation Criteria

Criteria
Organization Background/Experience
Concept/Brand Development and Merchandise
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Management, Staffing Plan, and Training
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Rent Proposal
Financial Evaluation



SAN DIEGO INTERNATIONAL AIRPORT
 Concession Development Program

Financial Offer

Proposer	Percentage Rent Biddable	Year One MAG
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SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Proposal Scoring & Rankings

Scoring

	SB Preference	Worker Retention	Background/ Experience	Concept/ Brand Dev/Merch/ Pricing	Design, Materials, Capital Investment	Operations & Maintenance Plan	Mgmt, Staffing Plan & Training	Marketing and Promotions Plan	Rent Proposal	Financial Evaluation	Total
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Proposed Renderings

West Storefront



DUTY FREE AMERICAS SAN DIEGO, LLC
MADE IN AMERICA



Proposed Renderings

East Storefront



DUTY FREE AMERICAS SAN DIEGO, LLC
MADE IN AMERICA



Proposed Renderings

Interior View



DUTY FREE AMERICAS SAN DIEGO, LLC
MADE IN AMERICA





SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Recommendation

Adopt Resolution No. 2012-0081, awarding a seven-year concession lease to Duty Free Americas San Diego, LLC to design, build, and operate a duty free store in Terminal 2 East at San Diego International Airport, subject to Federal Aviation Administration (FAA) approval of term, and authorizing the President/CEO to take all necessary actions to execute the concession lease.



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Next Steps

- **Tenant Buildout**
– September 2012
- **Duty Free Store Operational**
– December 1, 2012



SAN DIEGO INTERNATIONAL AIRPORT
Concession Development Program

Questions

