

Memorandum



COUNCIL AGENDA: 3/06/2018

FILE: 18-259

ITEM: 6.1

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

SUBJECT: SEE BELOW

DATE: February 12, 2018

Approved

Date

2/22/18

**SUBJECT: FOURTH AMENDMENT TO THE HOST INTERNATIONAL, INC.
AGREEMENT**

RECOMMENDATION

Approve the Fourth Amendment to the Host International Inc. ("Host") Food and Beverage Concession Agreement ("Agreement") to extend the term of the agreement for six years, from June 30, 2020 to June 30, 2026, add new concession locations, revise the percentage fee thresholds, revise the terms of the Minimum Annual Guarantee ("MAG") and add a capital investment to be made by Host of no less than \$6,000,000.

OUTCOME

Approval of the Fourth Amendment will provide Mineta San José International Airport ("Airport" and "SJC") with new and refreshed concession concepts to enhance the current food and beverage selection and to better serve airport passengers. In addition, the extension of the term will aid in maintaining a similar volume of operating food and beverage concession locations when the Airport's other Food and Beverage Concession Agreement expires on June 30, 2020.

BACKGROUND

On October 12, 2007, the City released a Request for Proposals ("RFP") for a new food and beverage program for the Airport. On June 10, 2008, Council approved Resolution No. 74413 that authorized the City Manager to negotiate and execute an Agreement with Host International, Inc. and a second Concessionaire for food and beverage concessions which was executed on January 29, 2009.

On July 18, 2011, City and Host entered into a First Amendment to the Agreement to temporarily close Chiamonte's Deli and Bar Location in TA +, due to the deactivation of Gates 1 through 6 and to reduce Concessionaire's Minimum Annual Guarantee.

On November 15, 2011, City and Host entered into a Second Amendment to the Agreement to revise provisions regarding customer pricing, amend the Concession Area and concepts, memorialize changes to the Minimum Annual Guarantee commencement date and annual adjustment date, and make a clerical correction.

On December 11, 2014, City and Host entered into a Third Amendment to the Agreement to revise the Minimum Mid-Term Concession Refurbishment Expenditure, grant the Director authority to change the required dates for the mid-term refurbishments, revise the concession area, and increase the Minimum Annual Guarantee by the amount of \$291,818.

Since 2014, the Airport has seen significant passenger growth resulting in the need for additional food and beverage concessions that could provide first-class service and handle high traffic volume. The Airport identified additional locations in Terminal B that included a coffee concept, a branded hamburger concept, and a restaurant in Terminal A. In 2017, a letter requesting proposals for the new concepts was sent to Host and Pacific Gateway Concessions Inc., the two current prime food and beverage concessionaires at SJC. Host expressed interest and entered into final negotiations with the City. Host proposed on its current concession agreement prior to the recession and lost money during the economic downturn; however, the firm remains committed to investing in SJC. The terms of that negotiation are as follows:

1. Host will re-concept some of the current locations and design and construct new concepts with a Capital Investment by Host of no less than \$6,000,000. The list of changes are as follows:

Concept	Description	Location	Square Footage
Great American Bagel	(NEW CONCESSION LOCATION) Coffee and quick service food providing food offerings for all three parts of the day	Terminal B, opposite Gate 28	Appx. 900 square feet
Chick-fil-A	(NEW CONCESSION LOCATION) Branded fast food chicken concept	Terminal B, north of the T-B check point on the east side of the terminal across from Gate 25	Appx. 925 square feet

HONORABLE MAYOR AND CITY COUNCIL

February 12, 2018

Subject: Fourth Amendment to Host International, Inc.

Page 3

Trader Vic's Local Concept: Emeryville	(NEW CONCESSION CONCEPT) Replaces Santa Cruz Wine Bar and Brioche Doree Café. A world renowned Polynesian Bar with food that compliments the need for additional upscale style cuisine	Terminal B, on the west side of the terminal near Gate 23	Appx. 2,123 square feet
Trader Vic's Express Local Concept: Emeryville	(NEW CONCESSION CONCEPT) Convert Soup and Salad to Trader Vic's Express. Quick serve take away food with the same regard for quality as the full size restaurant with the same name	Terminal B, across from Gate 23	Appx. 1531 square feet
Shake Shack	(NEW CONCESSION CONCEPT) Replaces Sonoma Chicken with a quickly emerging branded burger concept Shake Shack	Terminal A across from Gate 12A	Appx. 2,300 square feet
International Beer Union	(NEW CONCESSION LOCATION) A contemporary and comfortable craft beer bar with sit down dining service	Terminal A, next to the new ALD common use lounge across from Gate 8	Appx. 1,952 square feet
Gordon Biersch Expansion Local Concept: San José	(CONCESSION CONCEPT EXPANSION) Add additional square feet to kitchen area to provide expanded food offering and a higher level of customer service	Terminal A next to Gate 11	Appx. 150 additional square feet
Starbucks Expansion	(CONCESSION CONCEPT EXPANSION) Replaces Access Point providing additional space to expand the existing undersized Starbucks concept	Terminal A at Gate 6	Expand Starbucks by Appx 740 square feet

- Due to the additional cost of licensing branded locations and additional capital investment, the Airport has agreed to the following percentage fee sales threshold modifications, (the percentage fees remain unchanged):

Food and Non-Alcoholic Beverages

- 14.0% of Gross Sales up to \$15,000,000
- 15.0% of Gross Sales from \$15,000,001 to \$20,000,000
- 16.0% of Gross Sales over \$20,000,000

Alcoholic Beverages

- 16.0% of Gross Sales up to \$3,500,000
- 18.0% of Gross Sales from \$3,500,001 to \$6,000,000
- 20.0% of Gross Sales over \$6,000,000

The percentage fee will be applied to the current MAG before yielding additional revenue to the Airport. Host is very close to having the percentage fee equal the MAG today; it is anticipated the opening of the new concessions will result in the percentage fee exceeding the MAG, thus providing additional revenue to the Airport.

3. Additional storage of up to 260 square feet to support the Chick fil-A concept is included in a separate location. This space will be at no additional cost in consideration for the terms of the proposed Fourth Amendment.
4. The concessionaire has committed to continue to provide the same level of Airport Concession Disadvantaged Business Enterprise (ACDBE) participation it currently maintains, which exceeds the City's current ACDBE participation goal of 10.64%.

ANALYSIS

In Calendar Year 2017, the Airport served 12.5 million passengers, which was an increase of 1.7 million passengers over the previous year. In Calendar Year 2018, the Airport's passenger growth is projected to continue at a double-digit rate. Based on this increased passenger volume, the Airport needs additional food and beverage concessions to serve these passengers. Host will add three new concepts, expand two existing concepts, and replace three concepts with new concepts. These revisions will help the Airport refresh the current food and beverage program while providing additional innovative food and beverage concepts at the Airport.

The City will receive an annual guaranteed revenue of \$3,151,818 over the additional six years. Upon execution of the amendment, the MAG calculation will be revised to be no less than 85% of the Concession Fee actually due to the City during the previous year, which could result in potentially higher revenue based off Concession Fees paid in excess of the MAG during the previous year.

There are two Food and Beverage concessionaires operating at the Airport and both Concession Agreements are set to expire on June 30, 2020. As part of the consideration of the amendment to add the additional locations and make no less than \$6,000,000 Capital Investment, the Concessionaire has requested an extension of the Agreement for six years to June 30, 2026.

Extension of the Agreement will allow the Airport to maintain food and beverage operations for passengers after the June 30, 2020 expiration date of the other Food and Beverage Concession Agreement, and the additional six year period allows the Concessionaire to amortize its \$6,000,000 capital investment.

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 choose not to approve the Fourth Amendment. At the conclusion of their Agreement, Host International Inc. would cease operations at the Airport and would vacate their existing space. In the interim, the City would issue a RFP for Food and Beverage Concessions.

Pros: The Airport would go through a competitive process for to replace Host that would commence operations on July 1, 2020.

Cons: The Airport would forgo the \$18,910,911 in additional guaranteed revenue, while losing the opportunity to provide new and refreshing food and beverage concepts to our passengers. Going out for bid would not guarantee that the Airport would receive the same level of revenue. If all food and beverage locations were bid simultaneously, it would negatively impact the Food and Beverage offerings available to the passengers.

Reason for not recommending: The Airport desires to create an atmosphere in line with the high-tech environment by providing quality food offering and service, increase the revenue to the Airport, and ensure there is no gap in food and beverage services. With the steady increase of passengers in the Airport, additional food and beverage concessions for the passengers is needed.

PUBLIC OUTREACH

This item will be posted on the City's Council Agenda Website for the March 6, 2018 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

As an extension of an existing agreement and the creation of a new revenue agreement for an existing service, this item is an administrative function. Therefore, no action by the Airport Commission occurred.

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
Airport Department

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