

## AGENDA REPORT

**Ordinance:** Adoption of an Ordinance Authorizing Execution of a *Space/Use Permit* with MAG US Lounge Management LLC for Development and Operation of a Common Use Airport Lounge at Oakland International Airport. **(Aviation)**

**MEETING DATE:** 10/8/2015

**AMOUNT:** \$217,000 (Minimum Annual Guarantee Rental) Revenue

**PARTIES INVOLVED:** MAG US Lounge Management LLC, New York, NY, Beth Brewster, Vice President Commercial, MAG US

**SUBMITTED BY:** Kristi McKenney, Acting Director of Aviation

**APPROVED BY:** J. Christopher Lytle, Executive Director

**ACTION TYPE:** Ordinance

### **EXECUTIVE SUMMARY**

This action would approve the terms and conditions, and delegate authority to the Executive Director to execute, a *Space/Use Permit* with MAG US Lounge Management LLC to construct, maintain and operate a common use airport lounge in Terminal 1 at Oakland International Airport for a term of seven (7) years with a minimum annual guarantee rental of \$217,000.

### **BACKGROUND**

Pursuant to the Board of Port Commissioners' Concession Policy<sup>1</sup>, on January 30, 2015, the Port issued a Request for Proposals (RFP) for a concession opportunity to construct, maintain and operate a full-service common use airport lounge serving all passengers at Oakland International Airport (OAK).

Common use airport lounges are a fairly new trend in airport concessions. Historically, airline-operated lounges have been considered hospitality facilities that offer – for selected passengers – comforts beyond those afforded in the airport terminal itself, such as more comfortable seating, quieter environments, complimentary alcoholic and non-alcoholic beverages and light snacks, exclusive restroom facilities, and often better access to customer service representatives. The American Airlines Admirals Club was the first airport lounge when it opened at New York City's La Guardia Airport in 1939. Generally, airlines operate

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<sup>1</sup> Resolution No. 05079, Resolution Adopting Policy for Awarding Concession and Customer Service Privileges in the Terminal Buildings at Oakland International Airport.

airport lounges as a service to premium passengers, usually those flying first and business class, and to very frequent fliers. Most major legacy carriers have one or more lounges in their hub and focus cities, as well as in major airports they serve. In the late 1990s, United Airlines proposed constructing and operating its proprietary “Red Carpet Club” at OAK’s Terminal 1, but those plans were never implemented. At no time has OAK had an airline-operated or common use lounge.

Airlines began closing down their proprietary lounges after the 9/11 attacks and accelerated the closures during the economic downturn and fuel price increases starting in 2008. Most airline-operated lounges are now concentrated at major hub airports, while abandoning their lounges in small and medium-hub airports. With the growth of low cost carriers, and the lack of airline-operated lounges in most airports, an opportunity for third-party lounge operators has developed. Airport Lounge Development (The Club at...), Airspace Lounge, American Express Centurion Lounge, MAG escape, and Plaza Premium Lounge Management are now operating common use lounges at airports across the United States and internationally.

Common use lounges fill an unserved niche. The concept of common use or independent VIP airport lounges is still relatively rare in the US, but very popular in Europe and Asia. Third-party operators are borrowing from this strong tradition in Europe and Asia, and tailoring it to the US market; designing and operating spaces that allow travelers to relax in comfort while waiting for their flight, enjoying complimentary food and beverages, including alcohol, and accessing free Wi-Fi, magazines, newspapers and television. To utilize the common use lounge, guests can be traveling on any airline and with any class of ticket. Access is gained by (i) purchasing a day-pass either in advance or from reception upon entering, (ii) enrolling in a non-airline affiliated membership program like PriorityPass, (iii) having a credit card that allows access as one of its benefits, or (iv) flying an airline that has an arrangement allowing access to a common use lounge.

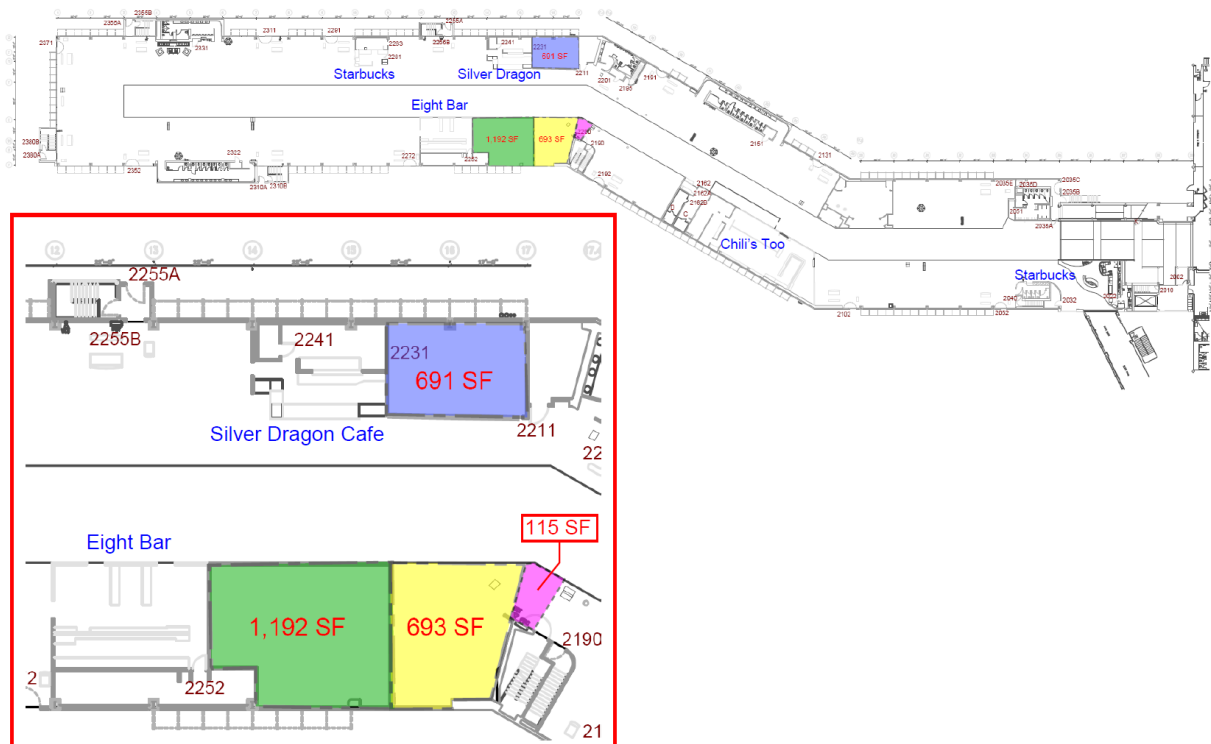
Based on passenger feedback and inquiries from some incumbent and prospective airlines expressing a desire for a common use lounge, staff decided to test the interest of third-party common use lounge developers/operators in opening a lounge at OAK. An Open House was planned and hosted with invitations transmitted to all known common use lounge developers, airport food and beverage concessionaires, OAK concessionaires and to the Port’s broad list of local businesses, unions, and chambers of commerce. Enough interest was expressed that staff moved forward with the Request for Proposals (RFP) that included the following information and requirements:

Solicitation of Proposals	The RFP will result in the award of a concession privilege for the construction, maintenance and operation of a full service, common use airport lounge serving all passengers at OAK in accordance with the terms and conditions of the Port’s standard form <i>Space/Use Permit</i> .
Term and Effective Date of the <i>Space/Use Permit</i>	The <i>Space/Use Permit</i> shall be effective upon approval by the Board of Port Commissioners. The term of the <i>Space/Use Permit</i> shall commence on the date of completion and opening of the Common Use Airport Lounge and expire on May 31, 2022, whichever date is earlier.

## Premises

Concessions space at OAK is limited and generally all occupied by existing business. In Terminal 1 – the preferred location for the common use lounge – there is approximately 2,700 square feet of vacant space; three spaces (combined into a single contiguous space) of 2,000± square feet with an additional 691± square feet in close proximity. Many of the domestic and international airlines utilizing Terminal 1 have multi-class levels of service onboard their aircraft and have lounges available at other airports creating a greater customer expectation for the benefits of a lounge.

## Common Use Lounge Potential Location - Terminal 1



## Proposed Concept and Design

All Proposers must submit a description of concept including services or products offered and color renderings detailing the proposed common use lounge concepts. The design should include, but is not limited to the following areas: reception/entry way, workstations, conference rooms, quiet seating, TV/Group seating, food service, limited and/or full-service bar, food preparation and storage, and a room set aside for other services as may be described by the successful Proposer. Restrooms, which would be considered beneficial to the concept, are not included and may not be accommodated in the available limited amount of space.

Proposed Financial Offer

Explain how the proposed concept will enhance the overall concessions program, appeal to the traveling public, and optimize sales and services, and therefore revenue to the Port and include:

- Sales projections for the Common Use Airport Lounge;
- Proposed minimum annual guaranteed (MAG) schedule; and
- Proposed percentage of sales payable to the Port as rent.

Note: Rental (MAG and percentage) revenue is not the primary goal of the Port with this RFP.

Qualifications and Experience

Proposals will be accepted from companies that have at least two (2) years of experience within the last five (5) years directly operating a Common Use Airport Lounge. Clearly identify the company's qualifications and describe concession experience in airports. Include:

- A list of comparable Common Use Airport Lounge operations; discuss the venue, contract term, highest and lowest gross receipts during Proposer's term of operating the Common Use Airport Lounge;
- An organization/functional chart;
- Management duties and responsibilities, by individual person; and,
- Local management team, including experience and qualifications.

Management and Operations Plan

Each Proposer must submit information with regard to how the operation will be managed in a way that maximizes sales and service to the traveling public, employees and visitors to the Airport. Proposals shall include:

- Proposed description of day-to-day operations schedule, staffing plan, pricing list for services and merchandise offered, approach to quality control, corporate monitoring, and supervision in order to maintain high levels of service, sales, and (secondarily) revenue to the Port;
- Proposed schedule for regular cleaning, maintenance, refurbishing, and visual and functional inspections of the Premises;
- Outreach to airlines and other partners to maximize passenger exposure and knowledge of OAK's Common Use Airport Lounge;
- Merchandise or product storage requirements (if more space required besides the Premises); and,

- Customer service programs and discuss how customer complaints will be resolved.

#### Proposal Deposit

Concurrent with delivery of its Proposal, Proposer will be required to post a check deposit in the amount of \$5,000.

#### Evaluation of Proposals

The Port and a selection committee will evaluate Proposals to determine which Proposer offers the best Common Use Airport Lounge concept to serve passengers at the Airport. The evaluation panel shall use the following criteria, weighted according to the number of points assigned to each criterion, in arriving at its ranking:

1. Proposed Concept and Design – 30 Points
2. Proposed Financial Offer – 30 Points
3. Qualifications and Experience – 20 Points
4. Management and Operation Plan – 20 Points

Evaluation of the overall Proposal will bear more weight than any individual part.

The Port may employ such analytical techniques and professional consultants for Proposal evaluation as it deems necessary. The Port intends to award the concession privilege to the best qualified Proposer making the Proposal that will best serve the interests of the Port, Airport and the traveling public. Such decisions will be made by the Board of Port Commissioners, in its sole discretion, and such decision will be final.

#### Labor Peace

The Board has adopted Resolution No. 14-18 Adopting a Labor Peace Agreement Policy for Airport Concession Tenancy Agreements, which states in part “all Concessionaires shall have signed Labor Peace Agreement with the labor organizations representing or seeking to represent concession workers at the premises covered by the applicable concession tenancy agreement in the Terminal Complex at the Airport prior to bidding on the concession or the execution of an Airport tenancy agreement...” Operation of a Common Use Airport Lounge would be considered an Airport concession and would be subject to the Labor Peace Policy.

### **ANALYSIS**

Two Proposals were received by the response deadline, and after initial internal review, both qualify for consideration. The Proposers are Airport Lounge Development (dba “The Club at OAK”) and MAG US Lounge Management LLC (dba “escape”). On September 1, 2015 an

evaluation panel<sup>2</sup> was convened for the Proposers to make oral presentations, to “sell” their concept and to be interviewed. The evaluation panel scored and ranked the two Proposals strictly according to the criteria set forth in the RFP.

**Evaluation Criteria and Panel Rankings:** The criteria used for the Committee’s evaluation of the proposals and formal presentations used a maximum 100-points scale:

Item	Criteria	Points	The Club at OAK	escape
1	<u>Adherence to Port Policy Requirements and Debarment Statement</u> Proposals from companies who have not or will not adhere to the Port Policy Requirements or who have been debarred and have not provided sufficient reasons/justification for the Port to review the circumstances surrounding the debarment, will not be forwarded to the evaluation committee for review. (Items 6 and 8 of the Submission Requirements section.)	Pass/Fail	Pass	Pass
2	<u>Proposed Concept and Design</u> Respondent’s creativity in maximizing OAK’s passenger experience in the limited amount of space available to construct, maintain and operate a Common Use Airport Lounge (Item A in Section II Scope of Services, and Item 4 in Section IV Submission Requirements)	30	19.8	<b>27.8</b>
3	<u>Proposed Financial Offer Inclusive of Investments</u> Respondent’s (i) financial resources to construct, maintain and operate a Common Use Airport Lounge, (ii) proposed rental structure – including MAG and/or percentage of sales, and (iii) identification of increased revenue stimulated by the Common Use Airport Lounge (Item D in Section II Scope of Services, and Item 5 in Section IV Submission Requirements)	30	16.0	<b>30.0</b>
4	<u>Company Information, Client References, Litigation Information, and Required Forms<sup>3</sup></u> Respondent’s capacity to provide professional service as evidenced by past performance, company information, reference checks, litigation information, and required forms. (Item E in Section II Scope of Services, Items 1, 3, 7, and 8 of Submission Requirements section.)	20 (10) <sup>3</sup>	9.0	<b>9.4</b>
5	<u>Management and Operations Plan</u> Respondent’s ability to construct, maintain and operate a Common Use Airport Lounge at OAK, including, once functional, day-to-day operations, periodic facility refurbishment, relationships with partners (airlines, credit card companies, lounge “clubs”, etc.), and potential ancillary product sales to generate additional business and revenue for the Airport. (Item F in Section II Scope of Services, and Item 2 and 4 in Section IV Submission Requirements)	20	15.6	<b>16.4</b>
	<b>Total</b>	100	60.4	<b>83.6</b>

<sup>2</sup> The evaluation panel consisted of a manager of a hospitality-focused group, an extreme frequent flier, and three Aviation staff representing Planning & Development, Marketing and Properties.

<sup>3</sup> The entire evaluation panel did not conduct client references nor confirm that all required forms are complete and acceptable; therefore, the maximum scored for Item 4 is 10 points; Port staff has completed review of references and forms.

**Proposed *Space/Use Permit*:** Based on the evaluation criteria and panel rankings, Staff is recommending that the Board approve a *Space/Use Permit*<sup>4</sup> with the following terms and conditions:

Permittee	MAG US Lounge Management LLC, based in New York, NY and a subsidiary of Manchester Airports Holdings (MAG). MAG is the largest operator of airports in the United Kingdom, serving 47± million passengers at four airports. MAG currently operates common use lounges at Manchester and Stansted in the UK, and is opening at Minneapolis-St. Paul International Airport in December 2015.
Term and Effective Date of the <i>Space/Use Permit</i>	The <i>Space/Use Permit</i> shall be effective upon approval by the Board of Port Commissioners. The term of the <i>Space/Use Permit</i> shall be approximately 7 years, with a firm expiration date of December 31, 2022. Section II.C of the RFP states the term is anticipated to commence June 1, 2015 for approximately seven years or May 31, 2022, whichever is earlier. Because of the later commencement date, it is proposed to maintain the seven-year term.
Premises	Approximately 2,700 square feet of vacant space on the Concourse Level of Terminal 1; 2,000± square feet of contiguous space on the south side of the Concourse plus an additional 691± square feet opposite; exact area may be determined by “as-built” plans.
Rent/Revenue	There are three sources of revenue as proposed by MAG: <ul style="list-style-type: none"><li>• Minimum Annual Guarantee = \$217,000 each year for the duration of the Term</li><li>• Percentage of Gross Revenue = 9% of all sales (excluding sales taxes)</li><li>• Tenant Infrastructure Fee (TI Fee) = \$16,200 per annum based on Premises area of 2,700 square feet, subject to adjustment based on as-built plans. TI Fees are assessed against all concessionaires to compensate the Port for common infrastructure improvements for retail and food and beverage concession operators.</li></ul>
Proposed Capital Investments	MAG will invest \$1.3 million in hard construction costs plus \$700,000 for furniture and fittings. If MAG invests less than \$1.3 million in hard construction costs, it must pay to the Port an amount equal to the deficiency.

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<sup>4</sup> To be eligible to participate in the panel presentation/interview, both Proposers agreed to the form of *Space/Use Permit* incorporated into the RFP; the Port’s standard which has been drafted for this specific common use lounge concept.

In addition, MAG will invest \$100,000 per annum (\$400,000 in Year 4) for refurbishments.

Performance Deposit	Pursuant to Port Policy No. AP-509, the Performance Deposit will be in the amount of \$60,000.
Labor Peace	MAG has acknowledged that, after approval by the Board, it must take quick action to enter into a Labor Peace Agreement.
Other Provisions	<ol style="list-style-type: none"><li>1. The size and location of leased and common areas may change from time to time, based on the Airport's operational requirements. The Director of Aviation may authorize reimbursement of up to \$100,000 of MAG's actual out of pocket costs of any required relocation, expansion or contraction of the Premises, with any higher amount requiring authorization by the Board.</li><li>2. The Manager of Airport Properties is authorized to approve changes in menus and pricing.</li><li>3. The Director of Aviation may impose certain administrative fees for violations of the terms of the <i>Space/Use Permit</i>.</li><li>4. The Director of Aviation may require MAG to stop selling products that he/she finds "unsatisfactory, distasteful or inappropriate".</li><li>5. MAG's Proposal, identified as "Oakland Bid Document" and its attachments, dated March 27, 2015, will be incorporated into the <i>Space/Use Permit</i>.</li><li>6. The <i>Space/Use Permit</i> is subject to 49 CFR Part 23 with respect to Airport Concession Disadvantaged Business Enterprises ("ACDBEs"). Federal ACDBE regulations prohibit local preferences or set-asides.</li></ol>

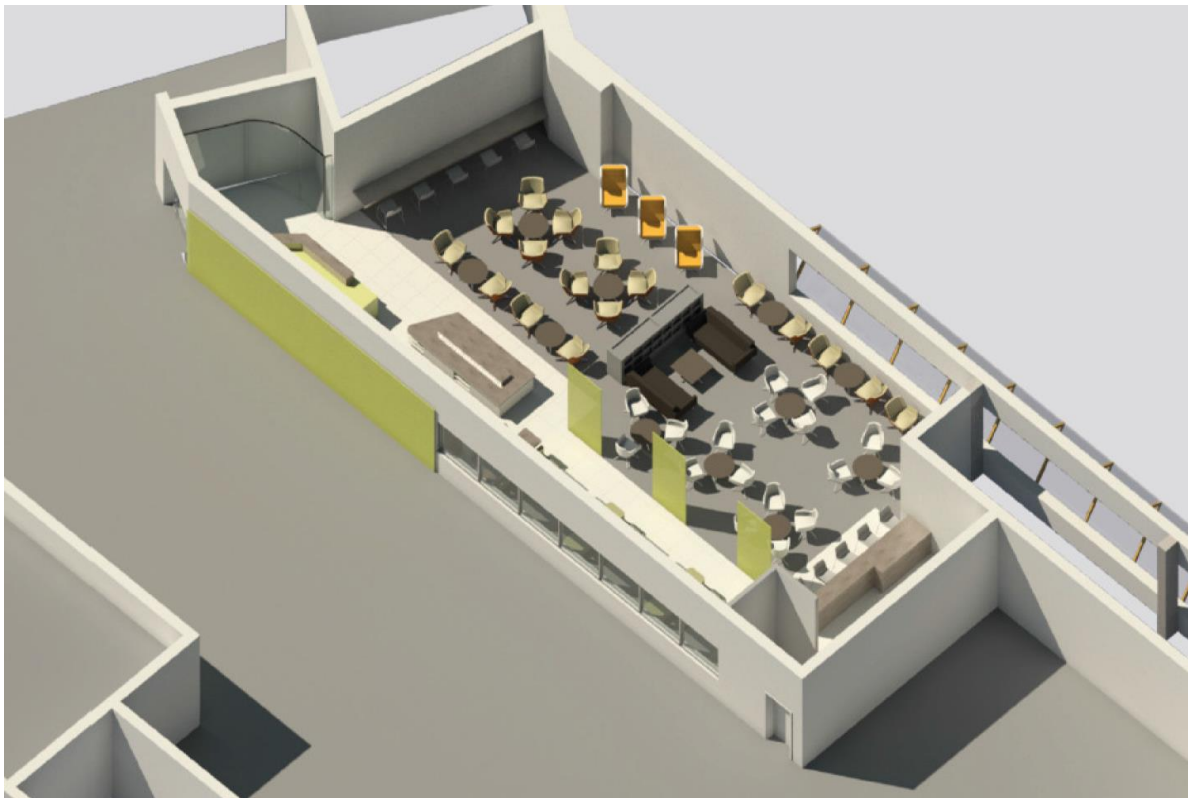
**MAG's "escape" Common Use Lounge Concept:** The available/vacant space at OAK totals a contiguous 2,000± square feet on the south side of the Concourse, which is significantly smaller than the industry standard and MAG's other lounges which range in size from 3,900 square feet to 5,800 square feet. Significantly, MAG will not be able to offer exclusive restroom facilities to its guests (however, OAK's women's and men's rooms are a short walk away), and this is not considered a fatal flaw for its product offering. This space does provide window views to the airfield, which is considered an important amenity. To maximize the utility of the 2,000± square feet, MAG will use the 691± square feet across the concourse for its prep kitchen, back office, and storage space.

MAG's escape concept envisions a series of "rooms" – identified below and illustrated on the floor plan and rendering – each with their own style of furniture, ambience and purpose:

- Reception & Entrance
- The Den
- The Bar & Deli
- The Study
- Coffee Lounge/Dining Area
- Back of the House



While a smaller footprint than MAG's existing escape lounges, the OAK facility will accommodate all "rooms" and take advantage of existing exterior windows with views to the airfield and interior windows exposing the lounge to the concourse:



## **BUDGET & STAFFING**

Entering into a *Space/Use Permit* for a common use lounge was not anticipated at the time the FY2015-16 Operating Budget was drafted; therefore no revenue was budgeted. Assuming MAG's escape lounge opens as anticipated on June 1, 2016, unanticipated revenue of \$17,666 will be earned for FY2015-16. Future year revenues will be a minimum annual guarantee of \$217,000.

There will be no change in Port staffing as a result of approving this concession opportunity.

## **MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)**

This *Space/Use Permit* includes construction type work that is within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and exceeds the thresholds required for coverage under the MAPLA. If the MAPLA is in effect for tenants when Port Permits are requested for future construction type work under this *Space/Use Permit*, its provisions will apply to that work only.

## **STRATEGIC PLAN**

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan

(<http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf>)

### **Goal A: Create Sustainable Economic Growth for the Port and Beyond**

- Goal A: Objective 1: Maximize the use of existing assets.
- Goal A: Objective 3: Increase revenue, job creation and small business growth.
- Goal A: Objective 4: Pursue strategic partnerships at all levels: local, regional, national and international.

### **Goal B: Maintain and Aggressively Grow Core Businesses**

- Goal B: Objective 2: Market strategically and aggressively to attract new customers and tenants.
- Goal B: Objective 5: Enhance customer services (i.e., market intelligence, technical knowledge, strategic advice and problem solving).

### **Goal C: Promote Equitable Community Access to Employment and Business Opportunities**

- Goal C: Objective 2: Conduct comprehensive communication and outreach to stakeholders and strategic partners to improve workforce and small business opportunities.

## **LIVING WAGE**

Based upon a review of the terms and conditions of the *Space/Use Permit* and information provided on this agenda, living wage requirements will apply to this lease and airport concession activity. Furthermore, the construction portion of this agreement will be subject to construction prevailing wage rates requirements.

## **ENVIRONMENTAL**

**CEQA Determination:** The *Permit* is categorically exempt from the California Environmental Quality Act (CEQA) Guidelines pursuant to Section 15301, Existing Facilities, which exempts the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination.

## **GENERAL PLAN**

Pursuant to Section 727 of the City of Oakland Charter, this project has been determined to conform to the policies for the transportation designation of the Oakland General Plan.

## **OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)**

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

## **OPTIONS**

1. Adopt an ordinance to approve, and authorize the Executive Director to execute, the proposed *Space/Use Permit* with MAG US Lounge Management LLC to construct, maintain and operate a common use airport lounge at Oakland International Airport, for a 7± year term with a minimum annual guaranteed annual rental of \$217,000; in conformance with its response to the Port's Request for Proposal for a Common Use Airport Lounge; and, as respondent with the higher score as determined by the evaluation panel. This is the recommended action.
2. Reject the proposed *Space/Use Permit* with MAG US Lounge Management LLC to construct, maintain and operate a common use airport lounge at Oakland International Airport and instruct staff to negotiate a *Space/Use Permit* with Airport Lounge Development, the other respondent to the Port's Request for Proposals for a Common Use Lounge.
3. Reject the proposals from both respondents – MAG US Lounge Management LLC and Airport Lounge Development – to the Port's Request for Proposals for a Common Use Airport Lounge, which would eliminate or delay the opening of a customer service-based concession which has been deemed important for attracting and maintaining domestic and international air travel passengers.

## **RECOMMENDATION**

It is recommended that the Board adopt an ordinance approving the proposed new *Space/Use Permit* with MAG US Lounge Management LLC to construct, maintain and operate a common use airport lounge at Oakland International Airport for a 7± year term (expiration date of December 31, 2022), with a minimum annual guaranteed rental of \$217,000; and in conformance with its response to the Port's Request for Proposal for a Common Use Airport Lounge dated March 27, 2015, and authorizing the Executive Director to execute the *Space/Use Permit*, subject to the Port Attorney's review and approval as to form and legality.