

AGENDA REPORT

Ordinance: Approval to Amend *Space/Use Permits* with Food & Beverage Concessionaires Andalé Management Group, Inc.; Gotham Foods Two, LLC; and, Host International, Inc. to (i) Extend the Term of Each Permit by Eight (8) Months, (ii) Allow the Tenant Infrastructure Fee Surcharge to Expire, and (iii) Increase the Benefits Fee from 2% on Each Sales Transaction to 3% on Each Sales Transaction; These Three Concessionaires Are Expected to Generate Approximately \$3.5 Million in Rental Revenue During the Extended Term. **(Aviation)**

MEETING DATE: 4/26/2018

AMOUNT: \$3.5 Million Rental Revenue During the 8-Month Term

PARTIES INVOLVED: Andalé Management Group, Inc., San Francisco, CA
Luis J. Sanchez, President
Gotham Foods Two, LLC, Sausalito, CA
Glenn Meyers, President
Host International, Inc., Bethesda, MD
Steven Johnson, President

SUBMITTED BY: Bryant L. Francis C.M., Director of Aviation

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

This action would approve entering into a *Second Amendment to Space/Use Permit* with each of the following food and beverage concessionaires to extend the term of their existing contracts for eight months pending completion of a Request for Proposals process that will lead to the award of new food and beverage concessions at Oakland International Airport. The concessionaires are:

- Andalé Management Group, Inc. – operator of Andalé Café in Terminal 2
- Gotham Foods Two, LLC – operator of Firewood Café in Terminal 2
- Host International, Inc. – operator/sublessor of 16 food and beverage outlets located throughout the Airport

In addition to extending the term, this action would allow the Tenant Infrastructure Fee to expire on May 31, 2018 and authorize an increase in the Benefits Fee from 2% on each sales transaction to 3%.

BACKGROUND

In 2006, with the anticipated opening of the new Terminal 2 Extension (“T2X”; Gates 26 through 32), and the pending expiration of the existing single-operator, food, beverage and retail concession agreement with CA1 (owned by Delaware North Companies) for all units in Terminal 1 (“T1”) and Terminal 2 (“T2R”; Gates 20 through 25), the Port issued a series of RFPs for all concessions locations that resulted in the Port entering into long-term *Space/Use Permits* (SUPs) with the following food and beverage concessionaires. These SUPs have a concurrent expiration date of May 31, 2018:

- Andale Management Group, Inc. operating Andale Café – full service bar and restaurant in T2X.
- Gotham Foods Two LLC operating Firewood Café – quick-serve restaurant in T2R.
- Host International, Inc. operating¹ or subleasing² units located throughout T1, T2R and T2X:
 - Five bar/restaurants;
 - Four specialty coffee outlets;
 - Two multi-concepts/food courts; and
 - One quick-serve restaurant.
- Youth Employment Partnership (YEP) operating two Training Grounds coffee locations in pre-security T1 and T2R (due to operational/revenue issues, in 2014, the Port allowed YEP to close the T1 location).

In addition to the usual, expected terms and conditions for operation of concessions at the Airport, the SUPs required the concessionaires to pay a “Tenant Infrastructure Fee” equal to \$12 per square foot per year based on the size of each concession unit. This Tenant Infrastructure Fee provided a source of funds for the Port to design and construct improvements to the Airport required by the concessions program and includes such infrastructure as an electric substation, grease interceptors and storage tanks, and extensions of plumbing, waste water, and electric services. Since collection of the Tenant Infrastructure Fee commenced in 2007, the Port has collected just over \$3.3 million and spent an equivalent amount.

At its meeting on April 12, 2018 the Board passed a resolution approving the business terms and conditions to be incorporated into the Request for Proposals for Food & Beverage Concessions Opportunities (the “RFP”) at Oakland International Airport. The tentative schedule for the RFP process is as follows:

Milestone	Date
RFP Issued	Mid/Late April 2018
Pre-proposal Meeting	Early May 2018
Proposals Due to Port	Mid July 2018

¹ Operated Units: Auntie Anne’s, Chili’s, CPK ASAP, Eight Bar, Fenton’s, Heinholds First & Last Chance, Max’s, Pyramid Ale House, and Starbucks (4 locations).

² Subtenant Units: Burger King, Gordon Biersch, Jamba Juice, Silver Dragon Café, and Subway.

Milestone	Date
Proposer Interviews	Mid August 2018
Proposers Selected	End August 2018
Board Meeting and Contract Awards	End September 2018
Design and Construction Documents	October 2018 – January 2019
Commencement of Agreements with New Concessionaires and Construction of New Units Begin	February 1, 2019
All Units Open	January 2020

As anticipated by this schedule, the commencement date of the contracts with the new food and beverage concessionaires will be February 1, 2019; however, as noted above, the *SUPs* with the existing concessionaires expire on May 31, 2018. Therefore, either these *SUPs* need to be extended for eight months or if allowed to expire, there will be no food and beverage services available at the Airport.

ANALYSIS

To fill the time gap between the May 31, 2018 expiration date of the existing *SUPs* and the February 1, 2019 commencement date of the contracts with the new concessionaires, staff negotiated an eight-month extension of the *SUPs* with Andale, Gotham and Host. YEP has determined that its best course of action is to allow its single remaining Training Grounds coffee outlet to close as scheduled on May 31, 2018. Each *Second Amendment to Space/Use Permit* includes the following minimal changes:

Expiration Date:	Extends from existing expiration date of May 31, 2018 for eight months through January 31, 2019.
Tenant Infrastructure Fee:	Eliminates the current Tenant Infrastructure Fee of \$12 per square foot per year; as noted above, the Fees collected to date cover the costs of the improvements made by the Port for those concession units.
Benefits Fee:	Increases the Benefits Fee from 2% to 3%. The <i>SUPs</i> allow these concessionaires to add a 2% employee benefit fee to each sale transactions to partially defray the cost of providing benefits to their employees. The approved business terms and conditions of the RFP increases the Benefits Fee to 3%. Allowing this increase does not impact the rental revenue payable by the concessionaires to the Port.

BUDGET & STAFFING

In its development of the proposed FY2018-19 Operating Budget, staff assumes these *SUPs* will remain effective during this proposed eight-month extension with the expected rental revenue remaining; therefore, this action does not have any budget or staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The work performed under this contract is not within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply to this work.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

Goal: Grow Net Revenues

Goal: Improve Customer Service

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), apply to this agreement as the tenant employs 21 or more employees working on Port-related work and the tenancy agreement is greater than \$50,000.

SUSTAINABILITY

The tenant has not proposed any development for the leased area. If the tenant decides to develop the site in the future, the tenant must comply with the 2000 Sustainability Policy and complete the Sustainability Opportunities Assessment Form.

ENVIRONMENTAL

This project has been determined to be 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. Approving the *Second Amendment to Space/Use Permit* with each of the food and beverage concessionaires does not change the use of the existing facility (operating concessions) and is therefore categorically exempt under CEQA. No further environmental review is required.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction project.

OPTIONS

1. Adopt an ordinance to approve each *Second Amendment to Space/Use Permit* with concessionaires Andalé Management Group, Inc.; Gotham Foods Two, LLC; and, Host International, Inc. as outlined above to (i) extend the term of each existing *Space/Use Permit* for an additional eight months through January 31, 2019, (ii) allow the Tenant Infrastructure Fee to expire on May 31, 2018, and (iii) increase the Benefits Fee from 2% of the sales transaction to 3% of the sales transaction effective June 1, 2018. This is the recommended action.
2. Adopt an ordinance approving alternative terms and conditions other than those outlined in this Agenda Report to extend the term of each existing *Space/Use Permit* with concessionaires Andalé Management Group, Inc.; Gotham Foods Two, LLC; and, Host International, Inc. and instruct staff to negotiate a revised *Second Amendment to Space/Use Permit* to incorporate these alternate terms and conditions.
3. Do not approve the terms and conditions of the proposed *Second Amendment to Space/Use Permit* with concessionaires Andalé Management Group, Inc.; Gotham Foods Two, LLC; and, Host International, Inc. as outlined above, which would result in the expiration of all three *Space/Use Permits* on May 31, 2018, before staff can complete the Food & Beverage Concessions Opportunities Request for Proposals process and enter into new contracts with successful proposers. This action would result in the closure of all food and beverage concessions at Oakland International Airport.

RECOMMENDATION

It is recommended that the Board adopt an ordinance to approve the terms and conditions of each *Second Amendment to Space/Use Permit*:

- With the following concessionaires:
 - Andalé Management Group, Inc.;
 - Gotham Foods Two, LLC; and,
 - Host International, Inc.
- To extend the term of each existing *Space/Use Permit* for an additional eight months from May 31, 2018 through January 31, 2019,
- To allow the Tenant Infrastructure Fee to expire on May 31, 2018, and
- To increase the Benefits Fee from 2% of the sales transaction to 3% of the sales transaction effective June 1, 2018.

And to authorize the Executive Director to execute each *Second Amendment to Space/Use Permit*, subject to the Port Attorney's approval as to form and legality.