



City of San Antonio

Agenda Memorandum

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In Control: Audit and Accountability Committee

**CITY OF SAN ANTONIO
AVIATION DEPARTMENT
Interdepartmental Correspondence**

TO: Erik Walsh, City Manager

FROM: Thomas Bartlett, Acting Director, Aviation Department

COPIES: Audit and Accountability Committee; Ben Gorzell, Chief Financial Officer; Kevin Barthold, City Auditor; Carlos Contreras, Assistant City Manager; Troy Elliott, CPA, Deputy Chief Financial Officer

SUBJECT: Post-Solicitation Briefing for Terminal A Duty Free Retail Concession

DATE: January 21, 2020

Passengers traveling from airport to international destinations are able to purchase a variety of duty free merchandise such as liquor and tobacco products at duty free retail stores. Merchandise including cologne and perfumes, cosmetics, packaged food gifts, jewelry, and electronics is also available for purchase by non-international travelers at these stores. These stores provide a customer enhancement to international travelers as well as a source of non-airline revenue for the airport. The duty free store at the San Antonio International Airport (airport) is located in Terminal A across from its international gates.

On June 27, 2018, a Request for Proposals (RFP) was advertised in the San Antonio Express-News, American Association of Airport Executives website, Airports Council International website, and Airport Revenue News website seeking qualified and experienced vendors for a Duty Free Retail Concession in Terminal A at the San Antonio International Airport with a contract term of 7 years with 3, one-year extensions. The estimated contract value is \$2 million in revenue for the total contract period. As a concession agreement, the solicitation was released under the Federal Aviation Administration's (FAA) Airport Concession Disadvantaged Business Enterprise (ACDBE) Program.

Six proposals were received and evaluated by the Evaluation Committee ("committee"). The committee representatives were Russell J. Handy, Director, Aviation Department; Thomas Bartlett, Deputy Director, Aviation Department; Steve Milburn, Property & Business Development Manager, Aviation Department; and Victoria Costantino, Facility Manager, La Villita.

The committee met on December 4, 2018, to review and score all proposals. The committee is recommending award to the highest ranked respondent.

As a long term exclusive (LTE) agreement (since it is the only duty free store at the airport and the term is over five years), the Office of Civil Rights (OCR) of the FAA must approve the joint venture (JV) of the respondent before it can be considered by the City Council. The OCR is focused on the JV between the ACDBE firm and the prime firm in which the ACDBE is responsible for a clearly-defined portion of work on the contract. This work is recognized in each proposal as part of the proposal's ACDBE goal. Among the items that the OCR reviews and approves as part of the LTE for the duty-free retail concession at SAT:

- Draft lease, subleases and other related documents
- Documentation of the certification of the ACDBE participants
- Methodology used by City to determine availability of ACDBE in market area
- Structure of the joint venture and the role of the ACDBE
- Information on the ACDBE's estimated gross receipts and earned net profits
- Information on the estimated investment required on the part of the ACDBE and any unusual management or financial arrangements between the prime concessionaire and the ACDBE

This process typically takes up to 90 days, which will restart if the documentation changes (for example, if the JV venture agreement is amended). The approval process for this agreement took longer, due in part to external impacts from the federal government shutdown (which began in December 2018 and lasted over 35 days) and recent findings in similar agreements at other airports that have led the OCR to scrutinize these agreements more closely.

The Small Business Office (SBO) of the Aviation Department submitted the requested information to the OCR on January 17, 2019. On February 8, 2019, the FAA responded with concerns with the joint venture and requested additional information on the goal methodology and a copy of the JV, including information on the roles and responsibilities of the parties involved. In May and June, SBO worked with the successful respondent to amend their JV agreement and provide additional information requested by the FAA. After substantial negotiations between the respondent, department and FAA, the successful respondent sent the revised documents to SBO on September 26, 2019. The OCR notified the SBO that the proposal was approved on the November 12.

The item is scheduled for Council consideration in February 2020.