



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** William F. Sherry, A.A.E.

**SUBJECT:** SEE BELOW

**DATE:** May 14, 2007

Approved

Date

5/17/07

**COUNCIL DISTRICT:** Citywide

**SUBJECT: RECOMMENDATION OF THE AWARD FOR THE AIRPORT  
ADVERTISING CONCESSION**

## RECOMMENDATION

Adoption of a resolution authorizing the City Manager to:

- (a) Negotiate and execute a Concession Agreement with Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports for Option #5, the placement of fixed display in-terminal advertising, outdoor advertising, transit/bus shelter advertising and promotional marketing opportunities at the Norman Y. Mineta San Jose International Airport, for a seven-year term from the date of execution, with an option in the City's sole discretion to extend the term for an additional three-year period, and with a minimum annual concession fee guarantee to the City of \$4,075,000.
- (b) Negotiate and execute a Concession Agreement with JCDecaux Airport, Inc. for Options #'s 1, 2 and 4, which are the options that JCDecaux submitted a proposal, the placement of fixed display in-terminal advertising, outdoor advertising, and promotional marketing opportunities at the Norman Y. Mineta San Jose International Airport for a seven-year term from the date of execution, with an option in the City's sole discretion to extend the term for an additional three-year period, and with a minimum annual concession fee guarantee to the City of \$2,300,000, in the event that the City Manager determines that the City and Clear Channel cannot agree upon the terms of the Concession Agreement for Option #5 by August 1, 2007.
- (c) Negotiate and execute a Concession Agreement with Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports for Option #3, the placement of transit/bus shelter advertising, for a seven-year term from the date of execution, with an option in the City's sole discretion to extend the term for an additional three-year period, and with a minimum annual concession fee guarantee to the City of \$75,000, in the event that the City Manager determines that the City and Clear Channel cannot agree upon the terms of the Concession Agreement for Option #5 by August 1, 2007.

## **OUTCOME**

Should Council approve the proposed Concession Agreement, the Airport will transition its advertising program to Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports (Clear Channel), which was selected through a Request for Proposal (RFP) process and whose proposal was selected by the RFP Evaluation Committee to most closely align with the City's goals and objectives for the Airport advertising program as approved by Council on January 9, 2007.

## **BACKGROUND**

On June 14, 2005 Council approved the four advertising concepts for the advertising concession at the Airport with further direction to include a fifth option in the RFP to allow bidders to bid on all four concepts.

As part of the outreach efforts, staff conducted a mailing to over 700 local and regional advertising firms to determine interest in an Airport advertising RFP. On November 16, 2006, Staff conducted a stakeholder outreach meeting to solicit comments on the basic terms and conditions of the RFP for advertising.

On January 9, 2007, Council approved the terms and conditions for the Airport Advertising concession RFP at the Airport.

### Key Dates:

- On January 10, 2007, the City posted the RFP on its website and then contacted via a mass email distribution and phoned those firms who had expressed interest at the November 16, 2006 Advertising Stakeholder Outreach Meeting.
- On January 30, 2007, a mandatory Pre-proposal Conference and Airport tour was held wherein 12 local, regional and national firms attended.
- On February 7, 2007, the City posted on its website answers to 75 questions posed both at the pre-proposal conference and submitted in writing. Also posted was the list of attendees along with the power point presentations presented at the meeting by City Staff. Staff followed up with an email and phone call to attendees of the Pre-proposal Conference informing them of the additional posted items.
- On March 20, 2007, proposals were due and the City received proposals from three companies including Clear Channel Airports, JCDecaux and The Younger Agency. Clear Channel proposed on all options, JCDecaux proposed on Options 1,2 and 4 and The Younger Agency proposed on Option 4.

Each proposal received an initial review to determine whether the minimum criteria had been met. An RFP evaluation panel involving a wide range of experience, knowledge and professions was assembled including:

1. John Buckner, Director of Administration and Commercial Services, Salt Lake City International Airport
  2. Chris Peacock, Vice President Membership & Marketing San Jose Chamber of Commerce
  3. Nancy West, Exstare Federal Services Group, LLC, Airport Consultant on Airport Concession Disadvantaged Business Enterprise.
  4. Irv Tosk, NYM San Jose International Airport Concessions Supervising Property Manager
  5. Bob Lockhart, NYM San Jose International Airport Landside Operations Manager
  6. An Airport Commissioner was invited to participate and was intending to be part of the evaluation team, but due to illness, was unable to attend.
- On April 10, 2007, the City hosted oral interviews with each of the proposers and the Evaluation Committee deliberated.

## **ANALYSIS**

The RFP consisted of four options that could have been bid on individually or as a comprehensive package of all four Options called "Option Five." In general the fee for each Option is the greater of a percentage of gross revenues or a Minimum Annual Guarantee (MAG). The MAG on each Option except Option 4 was a biddable item. The fee for each individual licensing/marketing opportunity will be negotiated by the City and the concessionaire on a case by case basis during the term of the Concession Agreement.

### **Option 1      **Fixed Display In-Terminal Advertising****

Option 1 included the interiors of Terminals A and C including 125 wall and floor displays; hotel/motel telephone reservation boards; column wraps; floor wraps; directories and banners as well as interior displays in parking garages and walkway connectors. The RFP set the concessionaire's Minimum Capital Investment at \$1,563,000 and percentage rent at 65% of gross revenues, subject to a biddable MAG as described above.

### **Option 2      **Outdoor Advertising****

This option included approved exterior locations including "Welcome to SJC" sign located at the entrance of the airport roadway system and light poles for banner displays. The RFP set the concessionaire's Minimum Capital Investment at \$209,000 and percentage rent at 65% of gross revenues, subject to a biddable MAG as described above.

### **Option 3      **Transit/Bus Shelters Advertising****

Option 3 included display types that are commonly found on buses and other ground transportation such as trams and light rail systems. Included in this category would be exterior king size posters; tail light displays; wraps and interior cards as an example. The Airport currently has 26 exterior bus shelters which would have their own unique display fixtures. The

RFP set the concessionaire's Minimum Capital Investment at \$228,000 and percentage rent at 50% of gross revenues, subject to a biddable MAG as described above.

**Option 4      Marketing Income**

This option included items such as official and exclusive San José Airport product rights/sponsorships, special events sponsorships and promotions, supplier sponsorships, naming rights, airport brand 'licensing rights'. The terms and conditions of each individual licensing/marketing opportunity during the term of the Concession Agreement will be negotiated at the time of the proposal(s) by the Airport Director or his designee.

**Option 5      Comprehensive Packages of All Four Packages**

The minimum capital investment and the MAG for Option 5 are the sum of Packages 1, 2, and 3. The Marketing Income component of this Package would be negotiated, consistent with Package 4 above.

The length of the Concession Agreement will be seven (7) years with one three (3)-year option to extend the agreement at the sole discretion of the City. The effective date of the Clear Channel agreement would be July 1, 2007 or the first day of the month following approval of award of the agreement. In addition, there will be two refurbishment requirements: one mid-term refurbishment at three (3) years and the second in the event that the City exercises its option to extend the Concession Agreement for an additional three (3) years.

The evaluation committee performed an extensive review of the proposals based upon the, goals and objectives as approved by Council on January 9, 2007. Those goals and objectives included:

Economic Development - Increase revenue performance, promote the City of San José (City) and the Silicon Valley area, local participation; provide a mix of local, state and national advertisers; and create unique displays that feature new technology.

Customer Satisfaction - Present an attractive environment for the traveling public, with minimal visual clutter and minimal distractions from way-finding signage, and provide excellent customer service.

City Policy - Insure compliance with the City's Sign Ordinance and City policies regarding sponsorship and naming rights, and insure all construction related to fixture and exhibit installation is consistent with City policies.

The Evaluation Committee unanimously concluded that Clear Channel's proposal and oral presentation most closely aligned itself with the goals outlined in the Advertising Request for Proposal documents. The process involved written and oral presentations by each proposer.

The written evaluation was separated into five criteria including:

Financial	1,800 points
Advertising Design and Sense of Place	750 “
Visual Experience	500 “
Experience, Qualifications and Financial Capability	1,250 “
Development, Marketing, Mgt and Operations plans	1,000 “
Total	5,000 “

The oral evaluation was separated into two criteria:

Presentation Evaluation	1,500 points
Evaluator Questions	1,000 “
Total	2,500 “

Option one had two proposers including Clear Channel and JCDecaux. Clear Channel was by unanimous decision of the evaluation committee the best proposal and received a total of 6,881 points of the total 7,500 points possible. JCDecaux received 5,279 points.

Option two also had two proposers including Clear Channel and JCDecaux. Clear Channel was chosen by unanimous decision of the evaluation committee with a total of 6,716 points of the total 7,500 points possible. JCDecaux received 5,531 points.

Option three had only one proposer, Clear Channel who received 6,698 points of the total 7,500 points possible. If we were to reach a juncture where we were negotiating with JC Decaux on Options # 1, 2, & 4, we would then negotiate with Clear Channel on Option#3.

Option four had three proposals including Clear Channel, JCDecaux and The Younger Agency. Clear Channel was chosen by unanimous decision of the evaluation committee with at total of 6,435 points of the total 7,500 points possible. JCDecaux received 5,528 points and The Younger Agency received 3,550 points.

Clear Channel was the only proposer on Option five and the Evaluation Committee chose this as the best response to the RFP by a unanimous vote. Therefore, staff recommends that Council authorize the City Manager to negotiate and execute a Concession Agreement with Clear Channel for all of the advertising options on the terms and conditions as provided in the RFP and as proposed by Clear Channel. Should there be an impasse in the negotiations or should no agreement be reached by August 1, 2007, then the City Manager will start discussions with JCDecaux.

The RFP included a protest procedure consistent with the City's procurement process. The last date for protests was Friday April 27, 2007. Prior to that date the City received a request for information from JC Decaux regarding Clear Channel's proposal. In order to provide sufficient time to provide the requested information, the protest period was extended an additional week to May 4, 2007. On May 1, 2007, JC Decaux sent a letter notifying the City that they would not protest the decision made by the Evaluation Committee.

In addition to the base line RFP requirements, Clear Channel proposed a one time signing bonus of \$1,000,000 should City award Option Five. Clear Channel proposed additional sites and

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another \$500,000 bonus plus an additional MAG of \$500,000 should City accept the proposed advertising sites. The additional sites are being studied by staff and it is hoped that they can be incorporated into the agreement as the agreement provides that the Director of Aviation can add or remove sites during the course of the agreement. This process is being coordinated between Airport staff, the Fire Department and Transportation Security Administration. Airport staff will also review the additional proposed locations with the Airport Commission during the June 4<sup>th</sup> meeting.

In year one, Clear Channel will be responsible for percentage rent for the first six months to allow for the transition and installation time. On the seventh month of the agreement, the MAG starts. The minimum annual guarantee cannot be less than the MAG bid in the proposal.

The advertising revenue to the City for Calendar Year 2006 was \$2,747,000 and the minimum annual income to the City bid by Clear Channel is \$4,075,000.

The minimum revenue to the City during the seven year agreement will be \$29,525,000 and should the City approve the additional sites the minimum revenue to the City for the agreement will be \$33,525,000. Should the City exercise the three (3) year extension option making the agreement ten (10) years, the revenues would be \$41,075,000 for the base plan and \$47,750,000 including the additional sites.

The advertising concession falls under the Federal FAA Airport Concession Disadvantaged Business Enterprise (ACDBE) regulations. On March 22, 2005, the Federal FAA published revised ACDBE regulations. The City, as a recipient of FAA financial assistance for Airport development, updated its ACDBE Program to comply with the new ACDBE regulations. Council approved the Airport's ACDBE Program on September 12, 2006. The ACDBE regulations specifically prohibit the use of a local preference when evaluating concession proposals.

Clear Channel has proposed to facilitate the City's efforts to meet ACDBE participation targets through race-neutral means, and the Concession Agreement includes ACDBE participation reporting provisions as required pursuant to the City's ACDBE Program. Clear Channel has proposed to use PRX, Inc., a local ACDBE subcontractor, to provide service for those local companies who do not have agency or creative representation during the term of the Concession Agreement.

In the event that the City Manager determines that the City and Clear Channel cannot agree upon the terms of the Concession Agreement by August 1, 2007, staff recommends that Council authorize the City Manager to commence negotiations with the second ranked proposer, JCDecaux for a Concession Agreement for Options 1, 2 and 4.

### **PUBLIC OUTREACH/INTEREST**

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
  
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
  
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

At various outreach events over the past several years, Office of Economic Development staff and presidents of the local business chambers of commerce have asked staff to see what could be done to promote the local business neighborhoods at the Airport. A provision has been inserted in the in-terminal component of the RFP to allow for up to three advertising units to be made available to promote the local San Jose business neighborhoods. Also, Airport staff will provide dynamic banners on the new Arrival Flight Boards. The banner will rotate and list each neighborhood and simultaneously present a picture representing that neighborhood.

In addition to contacting all major firms in the airport advertising industry and as part of outreach effort for this solicitation, staff contacted over 700 local and regional advertising companies to gauge their interest in the advertising RFP. Companies that responded positively were added to the RFP interest list.

Prior to bringing the advertising RFP back to Council for final approval of the terms and conditions, staff scheduled an industry stakeholder outreach meeting on November 16, 2006 to solicit comments on the basic terms and conditions. The local, regional and national firms that had expressed interest in the RFP were notified by e-mail and phone of the opportunity to weigh in on the various aspects of the solicitation

This item does not appear to qualify as an item of significant interest based on the established criteria. This memo is posted on the City's website for the June 5, 2007 Council Agenda.

During the Airport Commission Meeting held on May 7, 2007 the Commission voted unanimously to support staffs recommendation to award the Airport Advertising Concession to Clear Channel.

### **COORDINATION**

Preparation of this memorandum has been coordinated with the City Attorney's Office, Finance Department, the City Manager's Office, Department of Public Works/The Office of Equality Assurance, The Airport Commission and the Budget Office.

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**BUDGET REFERENCE**

The approval of the proposed Amendment would provide revenue to the City, and thus be consistent with Council-approved Budget Strategy – Guiding Principals for Budget and Financial Management.

**COST IMPLICATIONS**

Not applicable

**CEQA**

CEQA: Resolution Nos. 67380 and 71451, PP 07-096



WILLIAM F. SHERRY, A.A.E.  
Director of Aviation

Please direct questions to William Sherry, Director of Aviation, at (408) 501-7669.