

Item 3
File 10-0184

Department(s):
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve Amendment No. 3 to an existing lease agreement (lease) between the Airport and Clear Channel to (a) allow Clear Channel to advertise on 13 newly constructed bus shelters and the interior and exterior of 87 jet bridges (total of 174 spaces), (b) swap 63 advertising spaces on the baggage claim walls for 63 advertising spaces on baggage carousel decks, (c) amend the base rent to include revenues from new advertising locations, (d) exercise all three one-year options, from April 1, 2011 through March 31, 2014, and (e) require Clear Channel to invest at least \$214,000 for the construction of 13 bus shelters at the Airport.

Key Points

- Based on the results of a RFP, on February 16, 2001, the Board of Supervisors approved the existing five year lease between the Airport and Transportation Media, Inc. from April 1, 2001 through March 31, 2006, including three one-year options to extend until March 31, 2009 (File No. 00-2145). Transportation Media, Inc. is now owned by Clear Channel. In Amendments No. 1 and 2, the Board of Supervisors approved a five-year extension of the existing lease from April 1, 2006 through March 31, 2011 before exercising Clear Channel's existing three one-year options (File No. 02-1230). Clear Channel currently advertises on 247 locations throughout the Airport.

Fiscal Impact

- Under the existing lease, Clear Channel pays the Airport either the greater of (a) 70 percent of annual Clear Channel gross advertising revenues, or (b) the Minimum Annual Guarantee (MAG) of \$6,535,000 as of April 1, 2010. Under the proposed Amendment No. 3, the advertising revenues that Clear Channel would pay from the jet bridge and baggage carousel deck advertising will be equally shared between the Airport (50%) with the domestic airlines or the nonprofit San Francisco Terminal Equipment Company, LLC (50%), which owns or leases the jet bridges and baggage carousel decks. In the proposed three one-year option, the rent will be (a) (i) the greater of one-half of 70 percent of gross advertising revenues generated from the new baggage carousel deck advertising plus 70 percent of gross revenue from all existing advertising and from new bus shelters advertising, or (ii) the MAG and (b) one-half of the Jet Bridge Advertising MAG from new interior and exterior jet bridges advertising if Clear Channel sells such advertising spaces. Clear Channel is estimated to pay the Airport (a) \$7,126,170 in Year 1, (b) \$7,729,833 in Year 2 and (c) \$8,701,428 in Year 3 or a total of \$23,557,431 over the proposed three years.

Policy Considerations

- Given that (a) San Francisco voters previously approved Propositions which limit the expansion of advertising in the City, (b) the proposed Amendment No. 3 would increase the Airport's advertising by 187 spaces (13 bus shelters spaces and 174 interior and exterior jet bridges spaces), or 75.7 percent, from 247 to 434 spaces and (c) change the Airport's visual aesthetics, the proposed resolution is a policy decision for the Board of Supervisors.
- Based on discussions with the Budget and Legislative Analyst, the Airport revised the original Amendment No. 3 to include (a) a new Jet Bridge Advertising MAG and (b) provisions to require that Clear Channel's invest at least \$214,000 to construct 13 bus shelters at the Airport. Airport Commission Resolution Nos. 10-0152 and 10-0294 approved such changes to the proposed revised Amendment No. 3.

Recommendations

- Amend the proposed resolution to reference Airport Resolution Nos. 10-0152 and 10-0294. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(c), any lease agreement amendments with a term of ten years or more and/or which is anticipated to generate \$1,000,000 or more in revenues is subject to Board of Supervisors approval.

Background

Based on the results of a competitive Request for Proposal (RFP) process, in which the San Francisco International Airport (Airport) received only one proposal, on February 16, 2001, the Board of Supervisors approved the existing lease agreement (lease) between the Airport and Transportation Media, Inc., a private firm, for five years, from April 1, 2001 through March 31, 2006 to provide advertising at the Airport (File No. 00-2145). This original lease included three one-year options. Transportation Media, Inc. is now owned by Clear Channel Outdoor, Inc. (Clear Channel).

Under the original lease, Clear Channel pays the Airport an annual rent of either the greater of (a) 70 percent of annual Clear Channel gross advertising revenues, or (b) the Minimum Annual Guarantee (MAG), as shown in Table 1 below, to advertise on 85 Airport locations including (i) 70 spaces in various parking garages and (ii) 15 spaces in the Rental Car Center (see Table 3 below).

On August 23, 2002, the Board of Supervisors approved Amendments No. 1 and 2 (File No. 02-1230), which (a) suspended the MAG requirements retroactively from September 11, 2001 through March 30, 2002 under the Concession Support Program¹; (b) reinstated the MAG requirements effective April 1, 2002; (c) extended the existing lease for five years, from April 1, 2006 through March 31, 2011 under the Concession Support Program²; (d) revised the MAG increase schedule (see Table 1 below) and the MAG adjustment calculations³; and (e) added 240 advertising locations including (i) 123 spaces in the boarding⁴ and concourse⁵ areas of the Domestic Terminals, (ii) 36 spaces in the boarding area, concourse area and seated areas near the gates of the International Terminal, (iii) 18 spaces in the Air Train bridges⁶, and (iv) 63 wall spaces in the baggage claim level in the Domestic and International Terminals (see Table 3

¹ Under the Concession Support Program, the Airport suspended the MAG requirements for 43 Airport concession lessees that experienced declines in business due to reduced levels of air travel since the events of September 11, 2001.

² As part of the Concession Support Program, 42 lessees were granted options to extend their leases by five years beyond their current terms to allow more time for the lessees to recoup their initial investments for leases that started in 1998 or later.

³ Prior to Amendments No. 1 and 2, the MAG was subject to annual Consumer Price Index (CPI) adjustments on the anniversary date of the existing lease. After Amendments No. 1 and 2, the MAG was adjusted to 85 percent of the previous year's rent paid, but could not decrease to a value less than the previous year's MAG.

⁴ Boarding areas include the hallways and all other areas that are not in the seated areas near the gate.

⁵ Concourse areas are lobby areas before the security check point.

⁶ Air Train bridges are corridors that connect the terminals to the section of the garage that allow passengers to directly board the Air Train vehicles.

below). Under Amendments No. 1 and 2, the total number of Clear Channel advertising spaces in the Airport increased to 325 (85 spaces under the original lease plus 240 new spaces).

The Airport increased the MAG each year (see Footnote No. 3), beginning in the second year of the lease as shown in Table 1 below.

Table 1: The Existing Clear Channel Lease MAG Amounts

Period	Lease/ Extension Year	Description	MAG
4/1/2001 – 9/10/2001	Lease Year 1	Initial MAG	\$4,050,000
9/11/2001 – 3/31/2002	Lease Year 1	Due to Amendments No. 1 and 2	No MAG
4/1/2002 – 3/31/2003	Lease Year 2	Increase of \$50,000, or 1.2 percent, from \$4,050,000 to \$4,100,000.	\$4,100,000
4/1/2003 – 3/31/2004	Lease Year 3	Increase of \$100,000, or 2.4 percent, from \$4,100,000 to \$4,200,000.	\$4,200,000
4/1/2004 – 3/31/2005	Lease Year 4	Increase of \$100,000, or 2.4 percent, from \$4,200,000 to \$4,300,000.	\$4,300,000
4/1/2005 – 3/31/2006	Lease Year 5	Increase of \$500,000, or 11.6 percent, from \$4,300,000 to \$4,800,000.	\$4,800,000
4/1/2006 – 3/31/2007	Extension Year 1	Increase of \$1,050,000, or 21.9 percent, from \$4,800,000 to \$5,850,000.	\$5,850,000
4/1/2007 – 3/31/2008	Extension Year 2	Increase of \$159,000, or 2.7 percent, from \$5,850,000 to \$6,009,000.	\$6,009,000
4/1/2008 – 3/31/2009	Extension Year 3	Increase of \$167,000, or 2.8 percent, from \$6,009,000 to \$6,176,000.	\$6,176,000
4/1/2009 – 3/31/2010	Extension Year 4	Increase of \$175,000, or 2.8 percent, from \$6,009,000 to \$6,351,000.	\$6,351,000
4/1/2010 – 3/31/2011	Extension Year 5	Increase of \$184,000, or 2.9 percent, from \$6,351,000 to \$6,535,000.	\$6,535,000

Source: Airport

In January of 2010, Clear Channel surrendered the original 85 advertising spaces in the parking garages and the Rental Car Center since Clear Channel was having difficulty selling these advertising spaces but did not negotiate with the Airport to decrease the current MAG of \$6,535,000 as of April 1, 2010 (see Table 1 above). According to Ms. Gigi Ricasa, Senior Principal Property Manager at the Airport, the Airport agreed to find Clear Channel alternative advertising space at the Airport that was equal to the 4,005 square feet which was surrendered by the 85 advertising spaces. Ms. Ricasa advises that the Airport has already provided Clear Channel with seven alternate advertising spaces totaling 1,044 square feet in the boarding and concourse areas of the Domestic Terminal. According to Ms. Ricasa, the Airport is currently looking for alternative advertising space for the remaining 2,961 square feet (4,005 square feet of original advertising space less 1,044 square feet of alternate advertising space already provided).

According to the original lease, as previously approved by the Board of Supervisors, the Airport has the authority to relocate advertising spaces. As stated in the lease, “Should circumstances warrant, the Airport reserves the right to relocate Advertising to more suitable locations.” According to Ms. Ricasa, Clear Channel has already placed advertisements in the seven alternate advertisement spaces.

Therefore, Clear Channel currently has 247 advertising spaces in the Airport (325 total previous spaces less 85 parking garage and Rental Car Center spaces plus seven alternate boarding and concourse area spaces in the Domestic Terminal), which is shown in Table 3 below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 3 to an existing lease between the Airport and Clear Channel, which would (a) allow Clear Channel to advertise on 13 newly constructed bus shelters and the interior and exterior of 87 jet bridges⁷ (total of 174 spaces), (b) swap 63 advertising spaces on the walls of the baggage claim for 63 advertising spaces on baggage carousel decks, (c) amend the base rent to include the revenues from new advertising locations, (d) exercise all three one-year options, from April 1, 2011 through March 31, 2014, and (e) include lease provisions that Clear Channel is required to invest at least \$214,000 for the construction of 13 bus shelters at the Airport.

On September 7, 2010, the Airport Commission authorized the Airport to execute the subject Amendment No. 3.

Proposed Rent: In the first one-year option (from April 1, 2011 through March 31, 2012), the second one-year option (from April 1, 2012 through March 31, 2013) and the third one-year option (from April 1, 2013 through March 31, 2014), the new proposed base rent will be:

(a) the greater of (i) one-half of 70 percent of gross advertising revenues generated by Clear Channel from the proposed 63 baggage carousel deck advertising spaces plus 70 percent of gross revenues generated from the proposed 13 bus shelters advertisements and all existing advertisements, or (ii) the MAG (see Table 4 below); and

(b) one-half of the Jet Bridge Advertising MAG for the proposed interior and exterior of 87 jet bridges (total of 174 advertising spaces) if Clear Channel sells these advertising spaces (see Table 2).

According to Ms. Ricasa, the revenues generated from the proposed interior and exterior of 87 jet bridges (total of 174 spaces) and 63 baggage carousel deck advertisements will be equally shared between the Airport (50 percent) and either the domestic airlines at the Airport or the nonprofit San Francisco Terminal Equipment Company, LLC (SFOTEC)⁸ (50 percent). Such equal sharing of the revenues is proposed because (a) the domestic airlines own and manage the domestic jet bridges and the domestic baggage carousel decks and (b) SFOTEC leases and manages the international jet bridges and international baggage carousel decks.

Ms. Ricasa advises that due to decreases in advertising sales over the past two fiscal years, Clear Channel was reluctant to increase the existing lease's overall MAG with the addition of the new jet bridge advertising spaces. Therefore, the Airport and Clear Channel negotiated a separate Jet Bridge Advertising MAG, which would only be effective during the period that Clear Channel

⁷ Jet bridges are movable corridors that connect the Airport terminal to the airplanes to allow passengers to directly board and disembark from airplanes.

⁸ San Francisco Terminal Equipment Company, LLC (SFOTEC) is a non-profit organization that manages the international jet bridges and baggage carousel decks on behalf of the international airlines.

sells such jet bridge advertising spaces. The Jet Bridge Advertising MAG would be 70 percent of Clear Channel's specified advertising rates of \$330 per month for each interior jet bridge advertisement (12 square feet) and \$1,500 per month for each exterior jet bridge advertisement (200 square feet), if such advertising spaces are sold. Under the proposed Amendment No. 3, if Clear Channel increases these specified interior and/or exterior jet bridge advertising rates, the Airport would receive 70 percent of the increased rates. However, if Clear Channel decreases these advertising rates, then the Airport would continue to receive 70 percent of the original set rates of \$330 per month for interior jet bridge advertising and \$1,500 per month for exterior jet bridge advertising.

Table 2 below shows a breakdown of where the 87 jet bridges are located and the total amount that the Airport would receive if Clear Channel is able to sell all 174 advertising spaces (87 interior spaces and 87 exterior spaces). As shown in Table 2 below, if Clear Channel sells all 174 advertising spaces, the Airport would be paid a MAG \$111,360 per month, which includes \$20,010 for advertising on the interior jet bridges and \$91,350 for advertising on the exterior jet bridges.

Table 2: Proposed Monthly Interior and Exterior Jet Bridge Advertising MAG

Terminal	Number of Jet Bridges	70 Percent of the Interior Jet Bridge Rate of \$330*	Total Monthly Amount for Interior Jet Bridges	70 Percent of Exterior Jet Bridges Rate of \$1,500	Total Monthly Amount for Exterior Jet Bridges	Total Monthly Amount for Jet Bridges
Terminal 1	27	\$230	\$6,210	\$1,050	\$28,350	\$34,560
Terminal 2	14	230	3,220	1,050	14,700	17,920
Terminal 3	24	230	5,520	1,050	25,200	30,720
International Terminal	22	230	5,060	1,050	23,100	28,160
Total	87		\$20,010**		\$91,350	\$111,360

Source: Airport

* The Budget and Legislative Analyst notes that 70 percent of \$330 is \$231, not \$230. According to Ms. Ricasa, the Airport rounded the rate down to \$230.

** The Budget and Legislative Analyst notes that if the Airport uses the rate of \$231 instead of \$230, the Airport would receive \$20,097 per month, which is an additional \$87 per month (\$20,097 less \$20,010).

The Existing Lease's Overall MAG: Under the proposed Amendment No. 3, Ms. Ricasa advises that the existing lease's overall MAG of \$6,535,000, from April 1, 2010 through March 31, 2011 will not increase in the first, second or third one-year options because (a) the proposed 63 advertising spaces on the baggage carousel decks will replace 63 advertising wall spaces previously authorized on the baggage claim level of the Domestic and International Terminals, which the Airport has the authority to substitute based on the existing lease which was previously approved by the Board of Supervisors, and (b) Clear Channel will be required to invest at least \$214,000 for the construction of 13 replacement bus shelters for Airport shuttle vans and ground transportation.

Three One-Year Options: Ms. Ricasa advises that the Airport is proposing to exercise all three one-year options at this time because Clear Channel is being required to invest at least \$214,000 for the construction of 13 bus shelters at the Airport. According to Ms. Ricasa, the proposed three year extension of the lease would allow Clear Channel to amortize the \$214,000 construction costs.

Existing Number of Spaces and Proposed Number of Spaces: According to Ms. Ricasa, the 63 advertising spaces proposed on the baggage carousel decks will replace 63 advertising wall spaces on the baggage claim level of the Domestic and International Terminals as previously authorized in Amendment Nos. 1 and 2. Therefore, as detailed in Table 3 below, if the proposed resolution is approved, the number of advertising spaces in the Airport would increase by 187, from 247 to 434, which includes 174 jet bridge spaces (interior and exterior spaces on 87 jet bridges) plus 13 bus shelter spaces.

Table 3: The Existing and Proposed Clear Channel Advertising Spaces

Spaces	Number of Advertising Spaces in Original Lease	Number of Advertising Spaces Subsequent to Amendment Nos. 1 and 2	Number of Advertising Spaces after Clear Channel Surrendered Spaces in January of 2010 and the Airport Provided Alternate Spaces	Number of Advertising Spaces for Clear Channel to Advertise if the Proposed Amendment No. 3 is approved
Original Lease				
Various parking garages	70	70	0	0
Rental Car Center	15	15	0	0
Amendment No. 1 and 2				
Boarding and concourse areas of the Domestic Terminals	0	123	130	130
Boarding areas, concourse areas and seated areas near the gates of the International Terminal	0	36	36	36
Air Train bridges	0	18	18	18
Wall spaces in the baggage claim level in the Domestic and International Terminals.	0	63	63	0
Amendment No. 3				
Bus Shelters	0	0	0	13
Baggage carousel decks	0	0	0	63
Jet bridges	0	0	0	174
Total	85	325	247	434
Change in Number of Spaces for Clear Channel to Advertise	--	240	(78)	187
Percent Change	--	282.4%	(24.0%)	75.7%

Source: Airport

FISCAL ANALYSIS

Annual Payments under the Existing Lease

Table 4 below identifies the annual payments based on Clear Channel's advertising revenues realized at the Airport that the Airport received from Clear Channel under the existing lease. As reflected in Table 4 below, Clear Channel paid the Airport 70 percent of annual gross revenues in Lease Year 1 (between September 11, 2001 and March 31, 2002), Lease Year 4, Lease Year 5, Extension Year 1, Extension Year 2 and Extension Year 3 since such amounts were greater than the MAG. In Lease Year 1 (between April 1, 2001 and September 10, 2001), Lease Year 2,

Lease Year 3, and Extension Year 4, Clear Channel paid the Airport the MAG. As shown in Table 4 below, the Airport estimates that in Extension Year 5, from April 1, 2010 through March 31, 2010, 70 percent of annual gross revenues would be \$6,160,000, which is less than the MAG of \$6,535,000, such that Clear Channel would pay the Airport the MAG or \$6,535,000.

Table 4: Clear Channel Annual Payments to the Airport

Lease/Extension Year	Lease/ Option Year Dates		MAG	Clear Channel Gross Revenues	70 Percent of Gross Revenues	Total Annual Payments to Airport
	Start	End				
Lease Year 1	April 1, 2001	September 10, 2001	\$4,050,000	\$301,533	\$211,073	\$1,800,000*
Lease Year 1	September 11, 2001	March 31, 2002	No MAG	\$813,231	\$569,262	\$569,262
Lease Year 2	April 1, 2002	March 31, 2003	\$4,100,000	\$2,705,591	\$1,893,914	\$4,100,000
Lease Year 3	April 1, 2003	March 31, 2004	\$4,200,000	\$3,758,400	\$2,630,880	\$4,200,000
Lease Year 4	April 1, 2004	March 31, 2005	\$4,300,000	\$6,427,376	\$4,499,163	\$4,499,163
Lease Year 5	April 1, 2005	March 31, 2006	\$4,800,000	\$8,137,767	\$5,696,437	\$5,696,437
Extension Year 1	April 1, 2006	March 31, 2007	\$5,850,000	\$9,751,660	\$6,826,162	\$6,826,162
Extension Year 2	April 1, 2007	March 31, 2008	\$6,009,000	\$9,250,167	\$6,475,117	\$6,475,117
Extension Year 3	April 1, 2008	March 31, 2009	\$6,176,000	\$9,055,968	\$6,339,178	\$6,339,178
Extension Year 4	April 1, 2009	March 31, 2010	\$6,351,000	\$7,516,064	\$5,261,245	\$6,351,000
Extension Year 5**	April 1, 2010	March 31, 2011	\$6,535,000	\$8,800,000	\$6,160,000	\$6,535,000

Source: Airport

* The annual MAG in Lease Year 1 was \$4,050,000. There are 162 days between April 1, 2001 and September 10, 2001 and therefore, 162 days of \$4,050,000 is \$1,797,534. The Airport rounded the MAG up to \$1,800,000.

** Estimated by the Airport

Estimated Annual Payments for the Proposed the First, Second and Third One-year Options

Estimated Annual Payments from Bus Shelters and Baggage Carousel Decks: As shown in Table 5 below, the Airport projects that the proposed advertising on the 13 newly constructed bus shelters and 63 baggage carousel decks would generate \$173,250 in the first one-year option, \$181,913 in the second one-year option and \$191,008 in the third one-year option, or a total of \$546,171 of additional revenue over the proposed three-year option periods.

Table 5: Clear Channel's estimated payments to the Airport from Bus Shelters and Baggage Carousel Decks

Option Year	Lease/ Option Year Dates		70 Percent of Gross Revenues from Bus Shelters (a)	One-half of 70 Percent of Gross Revenues from Baggage Carousel Decks (b)	70 Percent of Gross Revenues from Bus Shelters and One-half of 70 Percent of Gross Revenues from Baggage Carousel Decks (a) + (b)
	Start	End			
1 st one year option	April 1, 2011	March 31, 2012	\$31,500	\$141,750	\$173,250
2 nd one year option	April 1, 2012	March 31, 2013	\$33,075	\$148,838	\$181,913
3 rd one year option	April 1, 2013	March 31, 2014	\$34,729	\$156,279	\$191,008
Totals			\$99,304	\$446,867	\$546,171

Source: Airport

Estimated Annual Rental Payments to the Airport based on Clear Channel's Advertising Revenues from Jet Bridges: As shown in Table 6 below, the Airport projects that the proposed new advertisements on the jet bridges would generate approximately \$337,920 in each of the first, second and third one-year options, or a total of \$1,013,760 of additional revenue over the proposed three-year option period based on the Jet Bridge Advertising MAG. According to Ms. Ricasa, Clear Channel conservatively estimates that approximately one-half of the 174 advertisement spaces will be sold on the 87 jet bridges, or approximately 44 interior jet bridge spaces and 44 exterior jet bridge spaces, for 12 months.

Table 6: Clear Channel's Estimated Gross Revenue from Jet Bridges

Option Year	Number of Jet Bridges (a)	Monthly Interior Sales (b) = (a) x \$230*	12 months of the Monthly Interior Sales (c) = (b) x 12	Monthly Exterior Sales (d) = (c) x \$1,050	12 months of the Exterior Sales (e) = (d) x 12	Total (f) = (c) + (e)	One-Half of the Jet Bridges Advertisement Sales (f) x 0.5
1 st one year option	44	\$10,120	\$121,440	\$46,200	\$554,400	\$675,840	\$337,920
2 nd one year option	44	\$10,120	\$121,440	\$46,200	\$554,400	\$675,840	\$337,920
3 rd one year option	44	\$10,120	\$121,440	\$46,200	\$554,400	\$675,840	\$337,920
Totals		\$30,360	\$364,320	\$138,600	\$1,663,200	\$2,027,520	\$1,013,760**

Source: Airport

* As stated in Table 2 above, the Budget and Legislative Analyst notes that 70 percent of \$330 is \$231, not \$230.

** The Budget and Legislative Analyst notes that if the Airport uses the rate of \$231 instead of \$230, the Airport would receive \$1,014,552 for one-half of the jet bridges advertisement sales, which is a difference of \$792 (\$1,014,552 less \$1,013,760)

Estimated Annual Rental Payments to the Airport based on Clear Channel's Advertising Revenues from Bus Shelters, Baggage Carousel Decks and Jet Bridges: In each of the first, second and third one-year options, Clear Channel is projected to pay the Airport (a) 70 percent of gross revenues from existing advertising and new bus shelter advertising and (b) one-half of 70 percent of gross revenues from new baggage carousel deck advertising since such amounts are higher than the MAG. In addition, Clear Channel is projected to pay the Airport one-half of the jet bridge advertisement sales. As shown in Table 7 below, Clear Channel is estimated to pay the Airport (a) \$7,126,170 in the first one-year option, (b) \$7,729,833 in the second one-year option and (c) \$8,701,428 in the third one-year option or a total of approximately \$23,557,431 over the proposed three one-year option period.

Table 7: Clear Channel's Estimated Annual Payments to the Airport under the Proposed Three One-Year Options

Option Year	MAG	Gross Revenues from Existing Advertising Locations	70 Percent of Gross Revenues Payable to the Airport based on 247 Existing Advertising Locations (a)	Estimated Revenues from Bus Shelters and Baggage Carousel Decks (b) (See Table 5)	Total Estimated Revenues (a) + (b) = (c)	One-Half of the Jet Bridges Advertisement Sales (d) (See Table 6)	Total Annual Rental Payable to the Airport based on 434 Advertising Locations (c) + (d)
1 st one year option	\$6,535,000	\$9,450,000	\$6,615,000*	\$173,250	\$6,788,250	\$337,920	\$7,126,170**
2 nd one year option	\$6,535,000	\$10,300,000	\$7,210,000*	\$181,913	\$7,391,913	\$337,920	\$7,729,833**
3 rd one year option	\$6,535,000	\$11,675,000	\$8,172,500*	\$191,008	\$8,363,508	\$337,920	\$8,701,428**
Totals		\$31,425,000	\$21,997,500*	\$546,171	\$22,543,671	\$1,013,760	\$23,557,431**

Source: Analysis conducted by the Budget and Legislative Analyst

POLICY ANALYSIS**The Aesthetics of Increasing Advertising in the Airport**

Since the commencement of the original lease on April 1, 2001, the number of advertising spaces has increased by 162, from 85 spaces to 247, or 190.6 percent. If the proposed resolution is approved, the number of advertising spaces would further increase by 187 spaces from 247 to 434, an additional 75.7 percent increase. Overall, there has been an increase of 349 advertising spaces at the Airport from the original 85 spaces to the proposed 434 spaces, or 410.6 percent.

As shown in four photographs below provided by Ms. Ricasa, the proposed Amendment No. 3 would change the aesthetics in the Airport by increasing the number of advertisements in public spaces. The first photograph below is an example of Clear Channel advertisements on baggage carousel decks. Amendment No. 3 would allow Clear Channel to advertise on 63 baggage carousel deck spaces at the Airport.



The second and third photographs below are examples of internal and external Clear Channel advertisements on jet bridges. Amendment No. 3 would allow Clear Channel to advertise on 87 jet bridges, or a total of 147 jet bridge spaces, at the Airport.

Jetway Wrap



SAN FRANCISCO INTERNATIONAL AIRPORT

CLEAR CHANNEL

* This design has been created by Clear Channel Airport. Reproduction of this display in whole or in part without permission is prohibited.



The fourth photograph below is an example of Clear Channel advertisements on bus shelters. Amendment No. 3 would allow Clear Channel to advertise on 13 new bus shelter spaces at the Airport. The 13 bus shelters would be constructed by Clear Channel at no cost to the Airport.



Since the proposed Amendment No. 3 would (a) increase the number of advertisement sites in public spaces by 187 spaces from 247 to 434, a 75.7 percent increase, and (b) change the aesthetics of the Airport, the Budget and Legislative Analyst considers the proposed resolution to be a policy decision for the Board of Supervisors.

Propositions Previously Approved by San Francisco Voters Which Addressed General Advertising in the City

In 2002, San Francisco voters approved Proposition G which added Section 611 to the City's Planning Code to prohibit new general advertising signs on any location within the City, including on exteriors of City buildings, as of March 5, 2002. Additionally, in November of 2007, San Francisco voters approved Proposition K, which established City Policy that the City should not allow any increase in the number of general advertising signs on street furniture over

the number of signs authorized as of July 1, 2007. Finally, in November of 2009, San Francisco voters approved Proposition E, which added Section 420-1 to the City's Administrative Code to codify the voters approval of Proposition G in 2002 and Proposition K in 2007, by prohibiting any new general advertising signs on the **exterior of City buildings** or any increase in the number of general advertising signs allowed on street furniture, including **transit shelters**, kiosks, benches and newspaper racks over the number authorized by City law and negotiated under the provisions of City contracts in effect as of January 1, 2008.

The Budget and Legislative Analyst notes that the proposed Amendment No. 3 of the Airport's lease with Clear Channel would significantly expand advertising at the Airport, both on the exterior of up to 87 jet bridges and on 13 new bus shelters. As of the writing of this report, a legal interpretation of the proposed Amendment No. 3 relative to San Francisco voter approval of these prior Propositions has not been finalized.

The Proposed Amendment No. 3 was Revised by the Airport based on Inquiries made by the Budget and Legislative Analyst

The proposed Amendment No. 3 is a revision made by the Airport of the original version of Amendment No. 3. The original version of Amendment No. 3 did not include lease provisions that (a) required Clear Channel to invest at least \$214,000 for the construction of 13 bus shelters at the Airport and (b) guarantees that additional payments to the Airport from Clear Channel would be made if advertising is sold on the interior and exterior jet bridges.

Based on inquiries made by the Budget and Legislative Analyst, the Airport (a) renegotiated with Clear Channel to add the Jet Bridge Advertising MAG, and revised Amendment No. 3 to include the Jet Bridge Advertising MAG, (b) revised Amendment No. 3 to require Clear Channel to invest at least \$214,000 for the construction of 13 bus shelters at the Airport, (c) received approval from the Airport Commission on April 6, 2010 to add the construction provision to Amendment No. 3 (Airport Resolution No. 10-0152), and (d) received approval from the Airport Commission on September 7, 2010 to add the Jet Bridge Advertising MAG to Amendment No. 3 (Airport Resolution No. 10-0294). The proposed resolution currently states that the Airport Commission approved Airport Resolution No. 10-0012 for the original version of Amendment No. 3. The Budget and Legislative Analyst therefore recommends that the proposed resolution be amended to also reference Airport Resolution Nos. 10-0152 and 10-0294.

SUMMARY

As shown in Table 7 above, Clear Channel will pay the Airport an estimated \$6,615,000 in the first one-year option, \$7,210,000 in the second one-year option, and \$8,172,500 in the third one-year option based on the 247 existing advertising spaces under the original lease and Amendment Nos. 1 and 2, which is a total amount of \$21,997,500.

If the proposed resolution is approved, authorizing the extension of three one-year options, the number of advertising spaces would increase by 187 spaces from 247 to 434, a 75.7 percent increase. Since the commencement of the original advertising lease in 2001, and with the approval of the three proposed one-year options, advertising spaces at the Airport will have

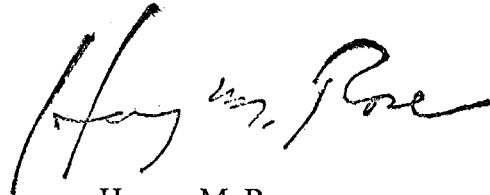
increased by 349 spaces from the original 85 spaces to the proposed 434 spaces, or a 410.6 percent increase.

As shown in Table 7 above, if the proposed Amendment No. 3 is approved, authorizing the extension of three one-year options, the Airport projects that Clear Channel will pay the Airport (a) \$7,126,170 in the first one-year option, (b) \$7,729,833 in the second one-year option and (c) \$8,701,428 in the third one-year option based on 434 advertising spaces for a total payment to the Airport of \$23,557,431. Therefore, the proposed Amendment No. 3 would increase the amount of advertising revenues that Clear Channel is estimated to pay the Airport by (a) \$511,170 (\$7,126,170 less \$6,615,000) in the proposed first one-year option, (b) \$519,833 (\$7,729,833 less \$7,210,000) in the proposed second one-year option and (c) \$528,928 (\$8,701,428 less \$8,172,500) in the proposed third one-year option, or an overall estimated increase of \$1,559,931 (\$23,557,431 based on 434 advertising spaces less \$21,997,500 based on 247 existing advertising spaces) in advertising revenues for the three year period.

Although San Francisco voters previously approved Propositions prohibiting the expansion of advertising on City buildings and street furniture, including transit shelters (see Policy Section above on propositions previously approved by San Francisco voters which address general advertising in the City), as of the writing of this report, a legal interpretation of the proposed Amendment No. 3 relative to San Francisco voters approval of those prior Propositions has not been finalized.

RECOMMENDATIONS

1. Amend the proposed resolution to reference Airport Resolution Nos. 10-0152 and 10-0294.
2. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.



Harvey M. Rose

cc: Supervisor Avalos	Supervisor Maxwell
Supervisor Mirkarimi	Clerk of the Board
Supervisor Elsbernd	Cheryl Adams
President Chiu	Controller
Supervisor Alioto-Pier	Greg Wagner
Supervisor Campos	
Supervisor Chu	
Supervisor Daly	
Supervisor Dufty	
Supervisor Mar	