

File No. 101002

Committee Item No. 9

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee BUDGET AND FINANCE

Date 9/8/10

Board of Supervisors Meeting

Date \_\_\_\_\_

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/> | Motion                                       |
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| <input type="checkbox"/>            | <input type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report                        |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Analyst Report                   |
| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form (for hearings)             |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/> | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Award Letter                                 |
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#### OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Form SFEC-126</u>     |
| <input type="checkbox"/>            | <input type="checkbox"/> | <u>Lease Agreement *</u> |
| <input type="checkbox"/>            | <input type="checkbox"/> | _____                    |
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Completed by: Gail Johnson

Date 9/3/10

Completed by: \_\_\_\_\_

Date \_\_\_\_\_

\* An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.



1 [Airport Concession Lease]

2  
3 **Resolution approving the Terminal 2 Newsstands, Coffee and Specialty Stores Lease**  
4 **between Host International, Inc. and the City and County of San Francisco, acting by**  
5 **and through its Airport Commission.**

6  
7 WHEREAS, The Airport Commission has requested for proposals for the Terminal 2  
8 Newsstands, Coffee, and Specialty Stores Lease; and

9 WHEREAS, Host International, Inc., was the highest, responsive, and responsible  
10 proposer; and

11 WHEREAS, The Airport Commission approved Resolution No. 10-0232 adopted  
12 July 6, 2010, awarding the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease to  
13 Host International, Inc.; now, therefore, be it

14 RESOLVED, That the Board of Supervisors hereby approves the Terminal 2  
15 Newsstands, Coffee, and Specialty Stores Lease, copies of which are contained in Board of  
16 Supervisors' file number 101002.



**Item 9**  
**File 10-1002**

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

## **EXECUTIVE SUMMARY**

### **Legislative Objective**

The proposed resolution would approve a new Terminal 2 Newsstands, Coffee and Specialty Stores Lease between Host International, Inc. and the City and County of San Francisco, acting by and through its Airport Commission for a total of 4,420 square feet of space.

### **Key Points**

Based on a competitive Request for Proposal process, the Airport has recommended the award of a new lease (Lease No. 10-0232) for retail services in its new domestic terminal, Terminal 2, scheduled to open on April 1, 2011. The lease includes a total of five locations in Boarding Area "D" of the Airport, to be serviced by a news wall / kiosk, a newsstand, two specialty retail stores, and a coffee shop.

The proposed lease is for 10-years, from April 1, 2011 through March 31, 2021.

### **Fiscal Impact**

Under the proposed lease, the lessee would pay the Airport an annual rent of the greater of either (a) its percentage of gross revenues sales, or (b) the Minimum Annual Guarantee (MAG). The MAG was the competitive bid item. The estimated rent for the first year payable to the Airport under the proposed lease would be \$1,320,000.

In addition to the annual rent, under the proposed lease, the lessee is required to pay the Airport an annual Tenant Infrastructure Fee and a Promotional Program Charge. The total fees and charges of \$14,542 for the first year payable to the Airport include \$10,122 in Tenant Infrastructure Fees and \$4,420 in Promotional Program Charges.

The estimated rent and fees payable to the Airport for the first year of the proposed lease are \$1,334,542 (\$1,320,000 in rent plus \$14,542 in fees and charges).

### **Recommendation**

Approve the proposed resolution.

## BACKGROUND/MANDATE STATEMENT

### Background

Since 1954, Terminal 2 at the San Francisco International Airport (Airport) operated as the International Terminal. Due to an increase in both domestic and international passenger traffic, the Airport constructed a new International Terminal in 2000, and in the fall of 2000 closed Terminal 2 to be renovated into a new domestic terminal. Renovations of Terminal 2 began in September 2008 and Terminal 2 is projected to be opened to domestic passengers in April of 2011. Terminal 2 will have approximately 29,211 square feet of food and beverages and retail establishments. The proposed lease includes a total of 4,420 square feet in Terminal 2 (see Table 2 below).

On February 19, 2010, the Airport issued a Request for Proposal (RFP) for a Newsstands, Coffee, and Specialty Stores Lease for five retail locations in Boarding Area "D" in Terminal 2.

After advertising on the Airport's website, the Airport news publication, press releases, and local newspapers for the proposed lease, the Airport received four proposals on March 31, 2010, from the following companies:

- Host International, Inc.
- Hudson-CCP SFO T2, JV
- Pacific Gateway Concessions, LLC
- The Paradies Shops, Inc.

The Terminal 2 Retail Blue Ribbon Panel<sup>1</sup> reviewed the qualifying proposals and determined Host International, Inc. to be the highest ranking, responsive, and responsible proposer. In July of 2010, based on the Airport's RFP process, the Airport recommended the award of the lease to Host International, Inc.

The scores of the four written proposals are shown in Table 1 below based on data provided by the Airport. The written proposal scores were based on the proposers' (a) concept and site visit (30 points), (b) design intention and capital investment (20 points), (c) business plan (20 points), (d) customer service and quality control (20 points), and (e) MAG (10 points).

**Table 1: Proposals for Terminal 2 News, Coffee, and Specialty Store Lease**

Bidders	Written Proposal Score <sup>2</sup>	MAG
<b>Total Possible Score</b>	<b>100</b>	
1. Host International, Inc.	89.18	\$1,126,000
2. Pacific Gateway Concessions, LLC	82.20	\$1,750,000
3. Hudson-CCP SFO T2, JV	80.75	\$1,400,000
4. The Paradies Shops, Inc.	74.61	\$1,594,401

Source: Airport

<sup>1</sup> The Terminal 2 Retail Blue Ribbon Panel consisted of four local business professionals appointed by the Airport Director.

<sup>2</sup> Average of panelists' scores.

As Table 1 above shows, despite the fact that the proposed lessee, Host International, Inc., had the highest score of 89.18 points, it submitted the lowest MAG bid of the four proposers. However, according to Ms. Nanette Hendrickson, Principal Property Manager at the Airport, because the scoring criteria apportioned only 10 percent of the overall score to the MAG bid, Host International, Inc. was able to achieve the highest overall score by excelling in other components of the proposal. According to Ms. Hendrickson, the Airport established 10 percent as the overall score weight for the MAG bid for all Terminal 2 leases in an effort to avoid lease decisions based primarily on the MAG. In previous years, when the MAG bid was considered the most important factor in the competitive bid process, winning bidders were sometimes unable to meet the MAG because their revenue forecasts proved to be unrealistic. In such cases, lessees would either request reductions to their rent amounts, attempt to sell merchandise outside the parameters of the permitted use, or reduce staffing to a degree that resulted in significantly diminished service levels at the Airport retail stores. The Airport finds, according to Ms. Hendrickson, that a competitive process, in which the MAG bid is balanced against other quality criteria, yields winning bidders that are able to sustain higher quality services over the terms of their leases. With analytical assistance of an outside consultant, the Airport determined that Host International, Inc.'s sales forecasts appear to be realistic, sustainable, and consistent with the Airport's experience with concessions leases.

### Mandate Statement

In accordance with Charter Section 9.118(c), any lease for ten or more years and/or having anticipated revenues of \$1,000,000 or greater is subject to Board of Supervisors approval.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would authorize the Airport to enter into a new lease with Host International, Inc. for use of a total of 4,420 square feet in five spaces in Boarding Area "D" of the new Terminal 2, as shown in Table 2 below.

**Table 2: Square Footage of Terminal 2 Newsstands, Coffee and Specialty Stores Lease**

	Location No.	Square Feet
News Wall / Kiosk	Space #5, D.2.362	409
Newsstand	Space #12, D.2.325	1,974
Specialty Retail Store	Space #21, D.2.253	563
Specialty Retail Store	Space #22, D.2.249	609
Coffee Shop	Space #25, T2.2.197	865
<b>Total</b>		<b>4,420</b>

Source: Airport

Lease Term Period: The proposed lease would have a term of ten years from April 1, 2011 through March 31, 2021.

Annual Rent: The proposed lessee would pay the Airport an annual rent of the greater of (a) a percentage of gross sales, or (b) the Minimum Annual Guarantee (MAG), as shown in Table 3 below.

**Table 3: Annual Rent for Terminal 2 News, Coffee, and Specialty Store Lease for Host International, Inc.**

MAG		Percentage of Gross Revenues
\$1,126,000	OR	<ul style="list-style-type: none"> <li>• 12% up to &amp; including \$1,000,000, plus</li> <li>• 14% over \$1,000,000 up to &amp; including \$2,000,000, plus</li> <li>• 16% over \$2,000,000</li> </ul>

Source: Airport

The MAG is subject to an annual Consumer Price Index (CPI)<sup>3</sup> adjustment on January 1<sup>st</sup> of each year of the proposed lease after the first full year<sup>4</sup>. If the CPI decreases, the rent will not decrease to a value less than the previous year's rent under the provisions in the proposed leases.

As stated above, the bidders submitted a MAG as part of their competitive proposal. The percentage of gross revenues rate scale was specified by the Airport in the Request for Proposals (RFP). According to Ms. Hendrickson, the rate scale was developed based on expected sales volume (calculated by using expected enplanement and average sales data), comparison to existing leases of other locations in the Airport for similar businesses and comparison to other airport's rental rates.

In addition to the annual rent, under the proposed lease, the lessee is required to pay a Promotional Program Charge and a Tenant Infrastructure Fee. The Airport's Promotional Program Charge and Tenant Infrastructure Fee are described below.

**Promotional Program Charge:** The Promotional Program Charge allows the Airport to recover a portion of the Airport's costs to advertise and promote the retail stores in the Airport's Terminals. The lessee is required to pay a Promotional Program Charge of \$1.00 per square foot, for a total of \$4,420, in the first year and any subsequent year in which the City elects to conduct a promotional program. The Promotional Program Charge is subject to an annual CPI increase adjustment on the anniversary date of the proposed leases.

**Tenant Infrastructure Fee:** The Tenant Infrastructure Fee allows the Airport to recover over the term of the lease a portion of the costs for the construction of the proposed retail spaces in Terminal 2. The proposed lessee would pay \$2.29 per square foot per year for its retail space in Terminal 2, for a total of \$10,122 per year. The Tenant Infrastructure Fee rate will remain the same throughout the term of the lease.

**Minimum Investment Amount:** The lease also requires that the lessee refurbish, redecorate, and modernize the interiors and exteriors of their specific retail space, at no cost to the Airport, at a required rate of \$350 per square foot, with a total one-time tenant improvement amount of \$1,547,000, based on 4,420 square feet. The lessee must provide evidence that it spent at least

<sup>3</sup> The CPI represents changes in prices of all goods and services for All Urban Consumers in the San Francisco-Oakland-San Jose area and is published by the Bureau of Labor Statistics under the United States Department of Labor.

<sup>4</sup> The first MAG adjustment shall occur on January 1<sup>st</sup> after the first full year after the Rent Commencement Date. Thereafter, every January 1<sup>st</sup>.



\$1,547,000 on improvements completed between the commencement date of the lease and the rent commencement date.

## FISCAL ANALYSIS

### Projected Revenue of the Terminal 2 Lease Including Rent and Fees for the First Year of the Proposed Lease

The Airport is estimated to receive a total of \$1,334,542 in the first year from the proposed lease, which includes \$1,320,000 from annual percentage of gross sales rent and \$14,542 in Tenant Infrastructure Fees and Program Promotion Charges.

According to Ms. Hendrickson, the Airport expects Host International, Inc. to pay the annual percentage rent in the first year of the lease, based on its projected sales. This assumes that the airlines meet their forecasted enplanements. If the MAG exceeds the annual percentage rents from gross revenue in the first year, the Airport would be paid a total MAG of \$1,126,000 (see Table 4 below).

**Table 4: Projected First Year Annual Rent of Terminal 2 Retail Leases**

MAG	Projected Gross Sales	Projected Percentage Sales Rent				Total Annual Rent Payments to the Airport
		12% of up to \$1,000,000	14% of \$1,000,000.01 up to \$2,000,000	16% of over \$2,000,000	Total	
\$1,126,000	\$8,625,000	\$120,000	\$140,000	\$1,060,000	\$1,320,000	\$1,320,000

Source: Airport

The total projected rent in the first year, excluding fees and charges, of \$1,320,000 exceeds the MAG of \$1,126,000 by \$194,000.

## RECOMMENDATION

Approve the proposed resolution.





San Francisco International Airport

July 22, 2010

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2010 JUL 23 PM 1:31  
P.O. Box 3097  
San Francisco, CA 94128  
Tel 650.821.5000  
Fax 650.821.5005  
www.sfsfo.com

*File 101002*

Ms. Angela Calvillo  
Clerk of the Board  
Board of Supervisors  
City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102-4689

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO

Subject: Approval of the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease No. 10-0232, between Host International, Inc. and the City and County of San Francisco, acting by and through its Airport Commission

GAVIN NEWSOM  
MAYOR

Dear Ms. Calvillo:

LARRY MAZZOLA  
PRESIDENT

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval the Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232, between Host International, Inc. and the City and County of San Francisco, acting by and through its Airport Commission. The Airport Commission approved the award of the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease to Host International, Inc.

LINDA S. CRAYTON  
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GUGGENHIME

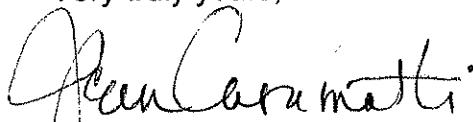
JOHN L. MARTIN  
AIRPORT DIRECTOR

The following is a list of accompanying documents (five sets):

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 10-0232;
- Copy of Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232.

You may contact Cheryl Nashir of Airport Revenue Development and Management at (650) 821-4500 regarding this matter.

Very truly yours,

  
Jean Caramatti  
Commission Secretary

Enclosures

cc: Cheryl Nashir

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 10-0232

**AWARD OF THE TERMINAL 2 NEWSSTANDS, COFFEE, AND SPECIALTY STORES  
LEASE TO HOST INTERNATIONAL, INC. FOR A MINIMUM ANNUAL GUARANTEE  
OF \$1,126,000.00 FOR THE FIRST YEAR OF THE LEASE**

**WHEREAS,** by Resolution No. 10-0044, adopted February 18, 2010, the Airport Commission authorized staff to commence the competitive selection process for the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease ("Lease") through a Request for Proposal ("RFP"); and

**WHEREAS,** by Resolution No. 10-0131, adopted March 16, 2010, the Commission authorized staff to accept proposals; and

**WHEREAS,** on March 31, 2010, staff received four (4) proposals from the following companies:

- Host International, Inc.;
- Hudson-CCP SFO T2, JV;
- Pacific Gateway Concessions, LLC;
- The Paradies Shops, Inc.; and

**WHEREAS,** the Terminal 2 Retail Blue Ribbon Panel reviewed the qualifying proposals and determined Host International, Inc. to be the highest ranking, responsive, and responsible proposer; and

**WHEREAS,** Host International, Inc. holds 49% interest in the Bay Area Restaurant Group, JV, and the award of the Lease is subject to Host International, Inc.'s – representing itself as well as the Bay Area Restaurant Group, JV – joining the multi-employer bargaining association; now, therefore, be it

**RESOLVED,** that the Airport Commission hereby awards the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease to Host International, Inc. under the conditions set forth in the staff memorandum on file with the Commission Secretary, including, but not limited to, a term of ten (10) years and a Minimum Annual Guarantee of \$1,126,000.00 for the first year of the Lease, subject to its compliance with the Nondiscrimination in Employment Program and Equal Benefits Ordinance and Host International, Inc. and the Bay Area Restaurant Group, JV's membership in the Airport Restaurant Employer's Council; and, be it further

**RESOLVED,** that this Commission Secretary is hereby directed to request approval of the Lease by Resolution of the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

*I hereby certify that the foregoing resolution was adopted by the Airport Commission*

*at its meeting of* \_\_\_\_\_

**JUL 06 2010**

  
Secretary

\*

**LEASE AGREEMENT**  
**FOR THE**  
**TERMINAL 2 NEWSSTANDS, COFFEE, AND SPECIALTY STORES**  
**AT SAN FRANCISCO INTERNATIONAL AIRPORT**

by and between

**HOST INTERNATIONAL, INC.,**  
as tenant

and

**CITY AND COUNTY OF SAN FRANCISCO**  
**ACTING BY AND THROUGH ITS AIRPORT COMMISSION,**  
as landlord

Gavin Newsom  
Mayor

**AIRPORT COMMISSION**

Hon. Larry Mazzola, President  
Hon. Linda S. Crayton, Vice President  
Hon. Caryl Ito  
Hon. Eleanor Johns  
Hon. Richard J. Guggenhime

John L. Martin  
Airport Director

July 6, 2010

Lease No. 10-0232

