

File No. 120076

Committee Item No. 1
Board Item No. 8

COMMITTEE/BOARD OF SUPERVISORS AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: February 22, 2012

Board of Supervisors Meeting

Date 2/28/12

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget & Legislative Analyst Report |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
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OTHER

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Completed by: Victor Young
Completed by: Victor Young

Date: February 17, 2012
Date: 2-23-12

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 - Paradies-SFP, LLC]
2

3 **Resolution approving the Terminal 3, Boarding Area F Newsstand Lease between**
4 **Paradies-SFO, LLC and the City and County of San Francisco, acting by and through**
5 **its Airport Commission.**
6

7 WHEREAS, The Airport Commission has requested proposals for the Terminal 3,
8 Boarding Area F Newsstand Lease; and

9 WHEREAS, Paradies-SFO, LLC was the highest, most responsive and responsible
10 proposer; and,

11 WHEREAS, The Airport Commission approved Resolution No. 11-0211, adopted
12 September 20, 2011, awarding the Terminal 3, Boarding Area F Newsstand Lease to
13 Paradies-SFO, LLC; now, therefore, be it

14 RESOLVED, That the Board of Supervisors hereby approves the Terminal 3, Boarding
15 Area F Newsstand Lease No. 11-0211, copies of which are contained in Board of Supervisors'
16 File No. 120076.
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Item 1
File 12-0076

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- Resolution approving a new seven-year lease between the Airport and Paradies-SFO, LLC (Paradies) for 1,062 square feet of retail newsstand space in Space F.2.050 located in Terminal 3, Boarding Area F, for seven years from approximately October 1, 2012 through September 30, 2019.

Key Points

- Pacific Gateway Concessions, LLC currently operates a 1,050 square foot newsstand in Space F.2.055, located in Terminal 3, Boarding Area F, which expires on February 28, 2012. Under the current lease, Pacific Gateway Concessions pays the greater of (a) the Minimum Annual Guarantee (MAG) of \$577,700 per year, or (b) percentage rent.
- According to Mr. John Reeb, Airport Senior Property Manager, due to construction in Terminal 1, Boarding Area B, the Airport needed to relocate another lessee, Klein's Deli, to Space F.2.055, currently occupied as a newsstand by Pacific Gateway Concessions in Terminal 3, Boarding Area F.
- The Body Shop currently operates a 1,062 square foot specialty retail store in Space F.2.050, located in Terminal 3 Boarding Area F, which as shown in the Attachment, is directly opposite the current Pacific Gateway Concessions newsstand space in Terminal 3, Boarding Area F. The Body Shop lease with the Airport has continued on a month-to-month basis since The Body Shop lease expired on April 6, 2011.
- The Airport, through a Request For Proposals (RFP) process, has selected Paradies as the highest ranking, responsive, and responsible proposer to provide new newsstand services in Terminal 3, Boarding Area F in Space F.2.050, the location currently occupied by The Body Shop.

Fiscal Impacts

- Under the proposed new seven-year lease between the Airport and Paradies, the rent would be the higher of (a) the MAG of \$401,000 per year, or (b) percentage rent calculated as (a) 12 percent of gross revenues up to and including \$500,000, plus (b) 14 percent of gross revenues above \$500,000 up to and including \$1,000,000, plus (c) 16 percent of gross revenues over \$1,000,000.
- According to Mr. Reeb, Paradies' projected annual gross revenues in FY 2012-2013 from the proposed 1,062 square feet of leased space, known as Space F.2.050, located in Terminal 3, Boarding Area F, will be approximately \$2,254,987 per year such that Paradies would pay the Airport the MAG of \$401,000 per year in rent. Conservatively, estimating no change in Paradies' gross revenues, Paradies would pay the Airport approximately \$2,807,000 (\$401,000 times seven years) over the seven-year term of the proposed lease.

Policy Consideration

- The revenues generated from both the previous and proposed leases are considered in the Airport's residual rate setting methodology (breakeven policy), which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline concession and other revenues received by the Airport, are equal to the Airport's total annual costs, including debt service and operating expenditures.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(c), leases exceeding ten years and/or having anticipated revenue of \$1,000,000 or greater is subject to the Board of Supervisors approval.

Background

Current Terminal 3, Boarding Area F Newsstand Lease in Space F.2.055

Pacific Gateway Concessions, LLC currently operates a 1,050 square foot newsstand in Space F.2.055, located in Terminal 3, Boarding Area F, shown in the Attachment, under an initial five-year lease with one two-year option to extend, for a total seven-year lease. The existing seven-year lease between the Airport and Pacific Gateway Concessions, LLC commenced on March 1, 2005 and expires on February 28, 2012. Under the existing lease, Pacific Gateway Concessions, LLC pays the greater of (a) a MAG of \$577,700 per year, or (b) percentage rent of

- 12 percent of gross revenues up to and including \$500,000, plus
- 14 percent of gross revenues above \$500,000 up to and including \$1,000,000, plus
- 16 percent of gross revenues over \$1,000,000.

Based on Pacific Gateway Concessions FY 2010-11 gross revenues of \$2,254,987, Pacific Gateway Concessions paid the Airport the MAG of \$577,700 in rent in FY 2010-11.

Klein's Deli Moving to Space F.2.055

According to Mr. John Reeb, Airport Senior Property Manager, due to construction in Terminal 1, Boarding Area B¹, the Airport needed to relocate another lessee, Klein's Deli, to a new location.² Mr. Reeb advises that the Airport determined that Space F.2.055, currently occupied as a newsstand by Pacific Gateway Concessions in Terminal 3, Boarding Area F, was the best replacement location for one of the Klein's Deli due to the size of the space and the imminent expiration of the current lease. Although the existing Pacific Gateway Concessions lease expires on February 28, 2012, according to Mr. Reeb, Pacific Gateway Concessions will continue to occupy Space F.2.055 on a month-to-month basis until Klein's Deli is ready to take possession of the space, which is estimated to be late March or early April of 2012.

New Location for a Terminal 3, Boarding Area F Newsstand in Space F.2.050

The Body Shop currently operates a 1,062 square foot specialty retail store in the subject Space F.2.050, which, as shown in the Attachment, is directly opposite the current Pacific Gateway Concessions newsstand Space F.2.055 discussed above in Terminal 3, Boarding Area F. As

¹ The construction in Terminal 1, Boarding Area B includes the merger of Continental and United Airlines and future seismic upgrades to Boarding Area B. The construction will continue for the next two to three years.

² As previously approved by the Board of Supervisors (File 11-0542), the Klein's Deli lease was amended to allow the two previous Klein's Deli locations to be relocated from Terminal 1, Boarding Area B and Terminal 3, Boarding Area E, such that one Klein's Deli will move to Space F.2.055 in Terminal 3, Boarding Area F and one Klein's Deli will move to a new Terminal 3, Boarding Area E location to be determined at a later date.

noted above that newsstand space will be replaced by Klein's Deli. The Body Shop lease with the Airport has continued on a month-to-month basis since The Body Shop lease expired on April 6, 2011. Under the terms of the previous lease, The Body Shop paid the greater of (a) the MAG of \$275,000 per year, or (b) percentage rent of

- 12 percent of gross revenues up to and including \$500,000, plus
- 14 percent of gross revenues above \$500,000 up to and including \$1,000,000, plus
- 16 percent of gross revenues over \$1,000,000.

Under the terms of the current month-to-month lease, The Body Shop pays the Airport the above-noted percentage rents. For the six-month period from July 1, 2011 through December 31, 2011, The Body Shop paid the Airport a total of \$535,871 in rents or an average of \$89,312 per month, an annualized total of approximately \$1,071,742. The Body Shop lease will continue on a month-to-month holdover basis in space F.2.050 until approximately June 30, 2012. The proposed lessee, Paradies, will occupy space F.2.050 to provide a retail newsstand to replace the newsstand previously located in space F.2.055 in Terminal 3, Boarding Area F. According to Mr. Reeb, newsstands help to draw Airport customers to other boarding area retail shops to stimulate shopping. In relocating Klein's Deli to Space F.2.055, the Airport no longer had a newsstand in Boarding Area F in Terminal 3.

Request For Proposals (RFP) for the New Terminal 3, Boarding Area F Newsstand Lease

On June 29, 2011, the Airport, through a Request For Proposals (RFP) process, received seven proposals for a new, proposed Terminal 3, Boarding Area F newsstand lease in space F.2.050 from (a) Hudson Group (HG) Retail, LLC, (b) LS Travel Retail North America, (c) Pacific Gateway Concessions, LLC; (d) Paradies-SFO, LLC, (e) Skyline Concessions, Inc., (f) Stellar Partners, Inc., and (g) Avila Retail, LLC. The Airport selected Paradies-SFO, LLC (Paradies) as the highest ranking, responsive, and responsible proposer to provide a retail newsstand and sell related products in Space F.2.050 based on a comprehensive score consisting of the (a) Proposed Concept and Site Visit, (b) Design and Capital Investment, (c) Business Plan, (d) Customer Service and Quality Control, and (e) MAG. According to Mr. Reeb, while Paradies had the third highest MAG, Paradies' overall proposal was rated superior based on a three person panel of reviewers.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease between the Airport and Paradies for 1,062 square feet of retail, newsstand space in Space F.2.050, located in Terminal 3, Boarding Area F, for seven years from approximately October 1, 2012 through September 30, 2019.

FISCAL IMPACTS

Under the proposed new lease between the Airport and Paradies for the 1,062 square feet of retail, newsstand space, the rent payable by Paradies to the Airport would be the higher of (a) the Minimum Annual Guarantee (MAG) of \$401,000 per year, or (b) percentage rent, which was set by the Airport, at

- 12 percent of gross revenues up to and including \$500,000, plus

- 14 percent of gross revenues above \$500,000 up to and including \$1,000,000, plus
- 16 percent of gross revenues over \$1,000,000.

The proposed lease also requires (a) a one-time Minimum Investment by Paradies of \$350 per square foot, or a total of \$371,700 for the 1,062 square feet of retail space, for Paradies to refurbish and construct a new retail newsstand store in Space F.2.050; and (b) a Promotional Charge of \$1 per square foot, or \$1,062 per year paid by Paradies to the Airport to reimburse the Airport for marketing and advertising costs. Under the proposed lease, Paradies would be responsible for the cost of utilities, janitorial, and any other operating expenses.

According to Mr. Reeb, Paradies' projected annual gross revenues in FY 2012-2013 from the proposed 1,062 square feet of new leased space, known as Space F.2.050, will be similar to the current 1,050 square feet of newsstand space that is currently leased by Pacific Gateway Concessions, in Space F.2.055, in Terminal 3, Boarding Area F or approximately \$2,254,987 per year. Based on the proposed lease terms, and assuming the projected annual gross revenues of approximately \$2,254,987, Paradies would pay the Airport the MAG of \$401,000 per year in rent. Based on the payment of the MAG to the Airport, Paradies would pay the Airport approximately \$2,807,000 consisting of seven annual MAG payments of \$401,000 over the seven-year term of the proposed lease.

As noted above, Pacific Gateway Concessions currently pays the Airport a MAG of \$577,700 per year, or percentage rent, whichever is higher, for Pacific Gateway Concessions' existing 1,050 square foot newsstand in Terminal 3, Boarding Area F. If the proposed new lease is approved between Paradies and the Airport, Paradies would pay the Airport a MAG of \$401,000 or percentage rent, whichever is higher, for Paradies proposed 1,062 square feet of newsstand space in Terminal 3, Boarding Area F. Therefore, if the proposed lease is approved, Paradies would pay the Airport a MAG of \$401,000, which is \$176,700 or 31 percent less than the MAG of \$577,700 that Pacific Gateway Concessions currently pays for 12 more square footage of newsstand space.

According to Mr. Reeb, the MAG is \$176,000 or 31 percent lower for the proposed Paradies' newsstand lease than the MAG paid by Pacific Gateway Concessions under the existing newsstand lease as a result of lower overall bids submitted to the Airport for the proposed lease.

According to Mr. Reeb, Paradies is expected to take possession of the proposed 1,062 square feet of space in Terminal 3, Boarding Area F on July 1, 2012, at which time construction of the new newsstand, at a minimum cost of \$371,000 would commence. The construction is anticipated to extend for approximately three months, such that the newsstand is anticipated to be open by approximately October 1, 2012. Rent payments to the Airport would commence on the first day of the operating term of the lease or approximately October 1, 2012.

POLICY CONSIDERATION

The Airport uses a "breakeven policy" known as the residual rate setting methodology to set the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline revenues (such as concession revenues) received by the Airport, are equal to the Airport's total costs, including debt service and

operating expenditures. According to this methodology, the amount needed to balance the Airport's budget then becomes the basis for calculating, by a formula specified in the leases with the airlines, the rental rates, landing fees, and related fees charged to airlines operating at the Airport in the upcoming year, such that the total revenues paid to the Airport by all airlines in the upcoming year is sufficient to balance the Airport's budget. At the end of the fiscal year, any budget shortfall or surplus is carried forward into the following fiscal year and is used in the calculation of the new rental rates, landing fees, and related fees charged to the airlines.

The revenues generated from both the previous and proposed leases are considered in the Airport's residual rate setting methodology, such that the Airport's budget will remain fully balanced by the revenues paid by the airlines to the Airport, after considering the Airport's budgeted expenditures and all non-airline revenues.

RECOMMENDATION

Approve the proposed resolution.

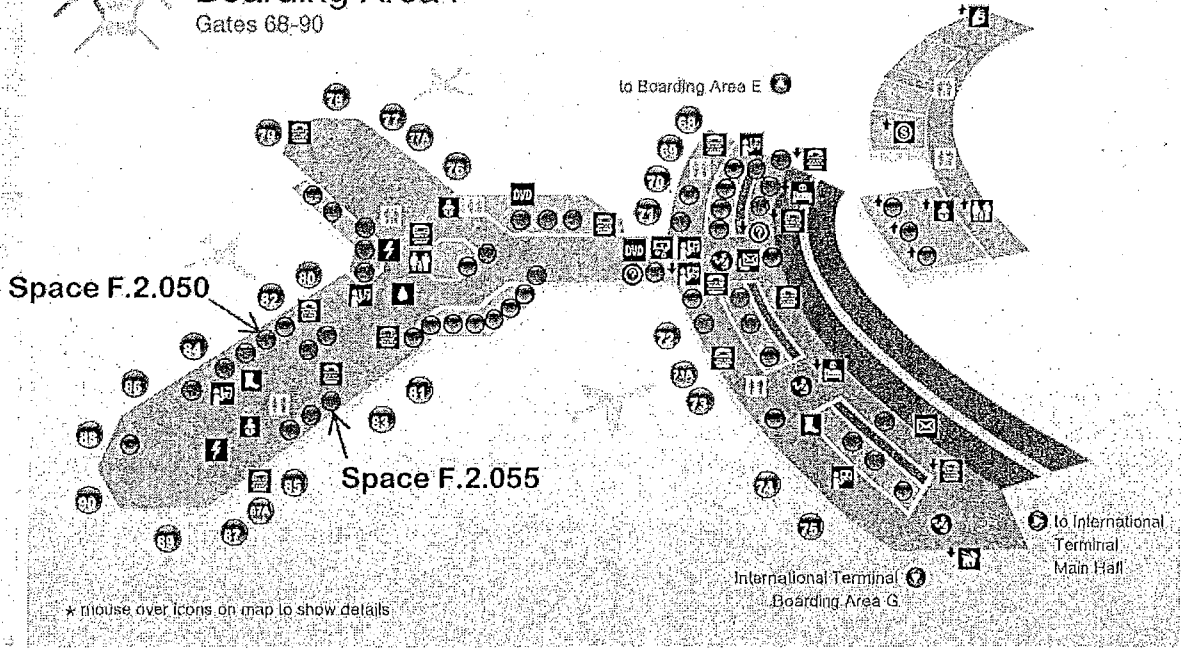
Terminal 3

Airport Overview | International Terminal | Main Hall A-C | Terminal 1 B-C | Terminal 2 D | Terminal 3 E-F

- airlines
- shopping
- food & beverage
- services
- amenities
- ground transportation



Boarding Area F
Gates 68-90



* mouse over icons on map to show details



legend: security ↓ arrivals level show or hide: shopping food & beverage services amenities ground transportation



AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

11-0211

RESOLUTION NO. _____

AWARD OF THE TERMINAL 3, BOARDING AREA F NEWSSTAND LEASE TO PARADIES-SFO, LLC.

WHEREAS, by Resolution No. 11-0004, adopted January 8, 2011, the Airport Commission ("Commission") authorized staff to commence the competitive selection process for the six (6) Retail Concession Leases ("Phase I Retail Leases") through Requests for Proposals ("RFPs"); and

WHEREAS, by Resolution No. 11-0128, adopted May 17, 2011, the Commission authorized staff to accept proposals for the Leases; and

WHEREAS, on June 29, 2011, staff received seven (7) proposals for the Terminal 3, Boarding Area F Newsstand Lease; and

WHEREAS, a three-member panel reviewed the qualifying proposals and determined Paradies-SFO, LLC ("Paradies-SFO") to be the highest ranking, responsive, and responsible proposer; now therefore, be it

RESOLVED, that this Commission hereby awards the Terminal 3, Boarding Area F Newsstand Lease to Paradies-SFO under the conditions set forth in the staff memorandum on file with the Commission Secretary, including, but not limited to, a term of seven (7) years and a Minimum Annual Guarantee of \$401,000.00 for the first year of the Lease, and subject to its compliance with the Nondiscrimination in Employment Program and Equal Benefits Ordinance; 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

SEP 20 2011

at its meeting of _____

Jean Caronatti

Secretary

LEASE AGREEMENT
FOR THE
BOARDING AREA "F" NEWSSTAND
IN TERMINAL 3
AT SAN FRANCISCO INTERNATIONAL AIRPORT

by and between

Paradies-SFO, LLC,
as tenant

and

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

Edwin M. Lee
Mayor

AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

John L. Martin
Airport Director

September 20, 2011

Lease No.11-0211

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
 (S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s): Members, SF Board of Supervisors	City elective office(s) held: Members, SF Board of Supervisors

Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: Paradies-SFO, LLC	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer, and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored by controlled by the contractor. Use additional pages as necessary. Gregg S. Paradies, President Njambi G. Mungai, Senior Vice President Karen Leach, Secretary Kevin Smith, Treasurer Lou Bottino, Senior Vice President and COO Don Marek, Senior Vice President and CAO	
Contractor address: 5950 Fulton Industrial Blvd., Atlanta, GA 30336	
Date that contract was approved:	Amount of contract: \$ 401,000.00 (MAG for first year of contract)
Describe the nature of the contract that was approved: Concessionaire for newsstand facility in Boarding Area F of Terminal 3.	
Comments: Lease awarded through a Request for Proposal process	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form

a board on which the City elective officer(s) services San Francisco Board of Supervisors
Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits.

Print Name of Board

Filer Information <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the SF Board of Supervisors	Contact telephone number: (415) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., SF, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed

