CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: December 3, 2014 Budget and Finance Committee Meeting

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Item 3 **File 14-0977**	**Department:** San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 1 to the existing contract between the Airport and Transcore, LP, implementing the new Ground Transportation and Taxi Management System, to (1) increase the contract not-to-exceed amount by $2,631,447 from $8,261,227 to $10,892,674; and (2) extend the contract term by approximately one year through June 30, 2016.

Key Points

- In 2012, the Airport issued a Request for Proposals (RFP) to replace the three systems that currently track the entry and exit of ground transportation vehicles at the Airport. The goal of the project is to develop a single Ground Transportation and Taxi Management System (GTMS/TMS) that can interface with other authorized City agencies.
- The Airport received proposals from three vendors in 2011: ICx Transportation Group, Transcore, LP, and TRMI Systems Integration. The proposals were scored by five judges against six criteria. Transcore received the high score of 4,595.
- The project term under the original contract was from August 8, 2012 to June 28, 2015.
- Project components include the replacement/expansion of the Automated Vehicle Identification (AVI) system (23 locations); the expansion of the CCTV camera system (35 cameras); a license recognition system at Airport entry roadways; taxi revenue and dispatching system replacement, and taxi payment kiosks, among other components.
- The proposed resolution would modify the original contract. It approves funds for 26 change orders, as well as an increase in funding for the interim in-vehicle Global Positioning System track taxi and other ground transportation trips to the Airport during the transition to the new management system, and a 7.5% contingency fund. It extends the contract end date to June 30, 2016.
- The 26 change orders included in the proposed resolution fall into four categories: 1) Changes resulting from new/changing requirements to external systems that interface with the GTMS; 2) Changes in response to unanticipated conditions that were discovered during system design; 3) Changes in response to the relocation of project sites; and 4) Changes to add functionality to address needs identified during system design.

Fiscal Impact

- The total cost of the original contract was not to exceed $8,261,277. The proposed resolution would allocate an additional $2,631,447 in funds, for a new total allocation of $10,892,674 for the GTMS project. This total is 32 percent greater than the original contract total. Forty-three percent of the original contract has been expended to date.

Recommendations

- Amend the proposed resolution to reduce the requested not-to-exceed authorized contract amount by $266,047, from $10,892,674 to $10,626,200.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118 (b) states that a contract entered into by a department, board or commission that (1) has a term of ten years or more, (2) requires expenditures of $10,000,000 or more, or (3) requires a modification with a $500,000 impact or more is subject to approval by the Board of Supervisors.

BACKGROUND

There are over 10,000 permitted ground transportation vehicles that enter and exit the Airport. Each type of ground transportation vehicle is charged a specific fee amount upon entering Airport premises. Table 1 below identifies the fee charged per trip for each type of ground transportation vehicle.

Table 1: Fee Charged per Trip by Vehicle Type (Airport)

Operator	Fee (per trip)
Taxis	$0, $2, or $4, depending on length of trip (charged for pick-ups only, not drop-offs)
Scheduled buses	$2.90
Shared ride vans (all zones)	$3.00
Pre-arranged vans	$3.15
Charter buses	$3.25
Off-airport parking lot shuttles	$3.00
Off-airport parking lot shuttles not implementing clean vehicle policy	$9.00
Limousines/other	$3.85
Hotel courtesy shuttles	$2.95
Hotel courtesy shuttles not implementing clean vehicle policy	$8.85
Miscellaneous ground transportation	$3.20

Source: Airport Commission: Summary of Airport Charges: FY 2014-2015

A total of $13.5 million was realized by the Airport in FY 2013-14 through the collection of these ground transportation fee revenues.

Previously, the Airport tracked the arrival and departure of taxis and other forms of ground transportation with its Automated Vehicle Identification System (AVI), Taxi Revenue System (TRS), and Ground Transportation Information System (GTIS).

Based on a competitive Request for Proposals (RFP) process, the Airport entered into a contract with Transcore, LP (Transcore) in August 2012 for Transcore to design, build and maintain a new Ground Transportation and Taxi Management System to replace the AVI, TRS, and GTIS systems.

Under this original contract, Transcore agreed to deliver an integrated system to provide real-time tracking of Taxi and Ground Transportation operators on Airport property. The system will interface with two other City agencies: the San Francisco Municipal Transportation Agency (SFMTA), to provide an updated databased of taxi vehicles and drivers, and the City's Financial Accounting and Management System (FAMIS), for direct reporting of GTMS revenues. It will also interface with the California DMV for verifications of driver license and vehicle registration data for commercial ground transportation operators at the Airport.

Three vendors responded to the RFP for the Ground Transportation and Taxi Management system that was issued in June 2011. They were:

- ICx Transportation Group (partnering with Samsung SDS);
- TransCore (partnering with IBI Group and VenTek Transit); and
- TRMI Systems Integration.

The proposals were reviewed and scored by a five-person panel of Airport directors and senior personnel. The proposals were evaluated using six overall selection criteria:

- Project approach;
- Experience of firm and sub-consultants;
- Assigned project team;
- Communication protocol specification and equipment costs;
- Proposer response forms; and
- Project cost.

The final scores of the three vendors are shown in Table 2 below.

Table 2: Vendor Name and Assigned Score for Airport GTMS Proposal

Proposer Name	**Score**
ICx Transportation Group	4365
Transcore	**4595**
TRMI Systems Integration	4250

Source: Angus Davol, Transportation Planner, San Francisco International Airport

The project term under the original contract is from August 8, 2012 to June 28, 2015. The total cost was not to exceed $8,261,227. The existing Transcore contract was not subject to Board of Supervisors approval because it was for less than $10 million and 10 years.

The following project components were included under the contract:

- Automated Vehicle Identification system replacement/expansion (23 locations);

- CCTV (closed circuit television) camera system expansion (35 cameras for curbside and staging areas);
- License Plate Recognition system for Airport entry roadways;
- GPS-based taxi short system;
- Taxi revenue and dispatching system replacement;
- Automated shared-ride van dispatching system;
- Dynamic signage to support dispatching and enforcement;
- Tablets for curbside dispatching and compliance/enforcement staff;
- Taxi payment kiosks (including non-SF taxis);
- Self-service web portal for taxi/ground transportation operators/drivers;
- Integrated billing system supporting pre-paid accounts for all operators;
- San Francisco Municipal Transportation Agency (SFMTA) and Department of Motor Vehicle (DMV) data integration; and
- Comprehensive customer software application and database.

Project benefits were to include the following:

- Replacement of end-of-life systems;
- Elimination of revenue loss from the existing AVI system;
- Improvement of vehicle tracking and enforcement capabilities;
- Automation of shared-ride van dispatching;
- Replacement of time-based taxi short system with a geo-fence/GPS-based system;
- Provision of integrated billing system for ground transportation fees and fines;
    - Pre-paid accounts (like FasTrak) for all ground transportation permittees;
- Expansion of camera coverage at terminal curbs and vehicle staging areas; and
- Replacement of proprietary systems with one based on open industry standards.
    - The system will not be constrained to any particular vendor for future maintenance/expansion.

The contract provided for the contractor to (1) fully warrant its products and services for one year following the notice of completion and (2) enter into a five-year maintenance agreement after completion of the project.

DETAILS OF THE PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 to the existing contract between the Airport and Transcore, LP to (1) increase the contract not-to-exceed amount by $2,631,447 from $8,261,227 to $10,892,674; and (2) extend the contract term by approximately one year through June 30, 2016.

Under the existing contract, Transcore is responsible for implementation of the new Ground Transportation and Taxi Management System (GTMS) to replace the existing AVI, TRS, and GTIS systems. Implementation was to occur in three phases: (1) phase 1 was design through March 2013; (2) phase 2 was installation through January 2014; and (3) phase 3 was testing and acceptance through May 2014. Of the $8,261,277 total contract, $7,920,227 was for the design, installation and testing of the system. Table 3 below indicates the project phase, planned end date, and percentage of contract funds allocated for the three phases to be expended.

Table 3: Proposed Project Spending by Design Phase

Phase	Planned End Date	Percentage of Project Funds
Phase I: Design	**March 2013**	**40%**
Phase II: Installation	**January 2014**	**30%**
Phase III: Testing	**May 2014**	**30%**

Source: 2012 Professional Services Agreement between Transcore LP and the City and County of San Francisco

The contract also provided for an "Interim Solution" prior to implementation of the new GTMS system, in which Transcore would supply in-vehicle Global Positioning System (GPS) devices for tracking of ground transportation vehicles. Since the existing transponders[1] used by the AVI and TRS systems to track ground transportation trips to the Airport are no longer available, the Interim Solution allows the Airport to allow and collect revenue from new ground transportation operators. The contract amount for the Interim Solution was $341,000 out of the total contract amount of $8,261,227.

Project Delays

As of November, 2014, only Phase I of the proposed project is complete, although Phase II was scheduled for completion in January 2014, or 11 months ago.

According to Mr. Angus Davol, Transportation Planner for the San Francisco International Airport, the project has been delayed for several reasons. First, contract certification didn't occur until October 23, 2012, which was two months after the original certification date.

Second, there have been delays related to the construction of infrastructure that is necessary to operate the new GTMS/TMS system. The construction contract selection and award process took longer than planned, which delayed the start date for the construction project.

On October 1, 2013, the Airport awarded Contract No. 9111A to Galleria Inc., dba Trico Construction in the amount of $7,719,577[2] to construct and install the infrastructure needed to support the new GTMS/TMS, including installation of the power and telecommunications systems in the terminal roadways, parking structures and at various locations across the Airport campus; construction of overhead and cantilever structures; and installation of CCTV cameras at numerous landside locations. The contract duration was for 420 consecutive calendar days or through approximately November 2014.

[1] The existing AVI and TRS systems recorded ground transportation trips to the Airport by receiving a signal from the transponders in the ground transportation vehicles when they entered the Airport.
[2] This contract amount is separate from the subject contract between the Airport and Transcore.

Once work on the infrastructure construction contract began, delays in implementation occurred. For example, during the installation of the fiber-optic network communications infrastructure that supports the GTMS field devices and system hardware, the construction contractor discovered that the planned underground fiber path was blocked, which required a redesign of the path to bypass the blockage.

Finally, during the design phase, new software requirements and airport business needs were identified that required change modifications be made to the contract between the Airport and Transcore.

The Proposed Modification No. 1

The legislation amends the existing contract with Transcore by incorporating 26 changes needed for the new Ground Transportation and Taxi Management System (GTMS/TMS). The additional work also includes allocations for the Interim Solution, and contingency costs, which are described further below.

Interim Solution

The Airport approved the implementation of the Interim Solution at the beginning of the contract in 2012, as the supply of transponders was already running out. Additional funds for the Interim Solution are being requested due to the unprecedented growth in new ground transportation operators (primarily limousines) recently seen at the Airport, which has depleted the supply of vehicle tracking devices.

Contingency Costs

The original contract did not include any funds for contingency costs. The proposed resolution authorizes a 7.5 percent contingency of the modified contract amount of $10,132,674, or $760,000, resulting in a total not-to-exceed contract amount of $10,892,674.

FISCAL IMPACT

The requested additional authorized contract amount of $2,631,447 is detailed in Table 4 below.

Table 4: Details of Requested Increased Contract Amount of $2,631,447

Integrated Revenue Management System (IRMS) to replace PMBS interface ▪ *New scope to support pre-paid/auto-replenishing accounts, not available in PMBS*	$440,509
Automated shared-ride van dispatching and relocation to Lot CC ▪ *Needed due to relocation of staging lot and to provide additional dispatch functionality*	$166,667
Current AVI/GTIS software maintenance ▪ *Needed to support legacy systems during transition period*	$163,333
Taxi pay-on-foot kiosks ▪ *New scope to collect trip fees from non-SF taxis (estimated $240K annual revenue)*	$146,270
AVI/LPR location on North Access Road ▪ *New scope for security monitoring and to collect trip fees at Executive Air Terminal*	$109,973
Upgrade to RuggedCom routers ▪ *Upgraded networking equipment to meet new security requirements*	$108,801
Enhanced tracking of shared-ride vans between domestic terminals ▪ *Additional AVI readers to support automated van dispatching at terminals*	$107,529
Interface with SFMTA's RideIntegrity system ▪ *New scope to support new SFMTA taxi system (cost to be passed through to SFMTA)*	$102,481
17 other change orders, including: ▪ Additional AVI readers for enhanced vehicle tracking ▪ Updated CCTV cameras for compatibility with new Airport systems ▪ Driver ID badging system for enhanced security ▪ Upgraded roadside enclosures to meet new Airport standards ▪ New software functionality identified during requirements gathering process	$393,600
Total for Change Orders	$1,739,163
Interim Solution	$132,284
Total Contingency	$760,000
Total	**$2,631,447**

Source: Angus Davol, Transportation Planner, San Francisco International Airport

Table 5 below shows how the modified contract will compare to the existing contract total.

Table 5: Summary of Original and Modified Contract Totals

	Existing Contract	Modification No. 1	Total Modified Contract
GTMS/TMS Scope, excluding Interim Solution	$7,920,227	$1,739,163	**$9,659,390**
Interim Solution (ROVR)	$341,000	$132,284	**$473,284**
Subtotal	**$8,261,227**	**$1,871,447**	**$10,132,674**
Contingency (7.5%)			
Hardware (including tax & shipping)		*$130,000*	
Design, installation, project management		*$180,000*	
Software development, integration, testing		*$430,000*	
Travel/per diem & other direct costs		*$20,000*	
Total contingency		***$760,000***	**$760,000**
Total	$8,261,227	$2,631,447	**$10,892,674**

Source: Angus Davol, Transportation Planner, San Francisco International Airport

To date, 43 percent of the original contract budget, or $3,552,328 of $8,261,227, has been expended. According to Mr. Davol, the use of the Interim Solution should conclude in January of 2015. The Airport will begin collecting revenue via the new transponder system in December of 2014.

Funding for the requested $2,631,447 increase in the project budget is in the Airport's Capital Plan, as previously appropriated by the Board of Supervisors.

According to an analysis conducted by the Budget and Legislative Analyst, the contingency amount should be 7.5 percent of the remaining contract funds of $6,580,346 ($10,132,674 less $3,552,328), or $493,526, which is $266,474 less than the requested contingency amount of $760,000. Therefore, the requested not-to-exceed amount of $10,892,674 should be reduced by $266,474 to a not-to-exceed amount of $10,626,200.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the requested not-to-exceed authorized contract amount by $266,474, from $10,892,674 to $10,626,200.
2. Approve the proposed resolution as amended.

Item 4 File 14-1038	Department: Small Business Commission

EXECUTIVE SUMMARY

Legislative Objectives

- Ordinance amending the City's Administrative Code to (a) direct the Small Business Commission to establish a Legacy Business Registry, (b) authorize an administrative fee for the Registry not to exceed $50, and (c) for the next five years, provide a rebate to Qualified Legacy Businesses that purchase the real property from which they operate, and to Qualified Landlords that purchase the real property from which Legacy Businesses operate if the purchaser extends the term of the Legacy Business's lease by at least ten years, in an amount equal to the Real Property Transfer Tax levied on the purchase.

Fiscal Impact

- A one-time administrative fee of $50 is estimated to be charged to Legacy Businesses which apply for inclusion in the new registry. To implement this Legacy Business Registry, Ms. Dick-Endrizzi estimates expending $6,000-$8,000, to hire a consultant to develop an enhanced data format to be integrated with the Office of Small Business' existing computer management system, which would be offset by the one-time $50 administrative fees collected and absorbed within the Office of Small Businesses' existing budget.
- The survey and report to the Board of Supervisors would be conducted with existing staff, within the Office of Small Business' existing budget. However, depending on the results of the survey and the recommendations made by the Small Business Commission regarding Legacy Businesses, there may be additional costs to implement these recommendations in the future.
- The proposed ordinance limits the total combined rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of $400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. In FY 2013-14, the City collected $261,924,190 in Real Property Transfer Taxes, which are deposited into the City's General Fund. The proposed ordinance specifies that the City would pay the rebates from the City's General Fund.

Policy Consideration

- The proposed ordinance does not address the monthly lease costs that would be charged by the Qualified Landlord to the Legacy Business. If the Qualified Landlord charges significantly increased rent to the Legacy Business for the extended ten year term, such that the Legacy Business could no longer afford to stay in that location, the merits of the proposed ordinance may be negated.

Recommendations

1. Amend the proposed ordinance to (a) provide for limited increases in monthly lease costs for properties in which the owner receives a Real Property Transfer Tax rebate; and (b) request the Executive Director of the Office of Small Business to recommend to the Board of Supervisors the process and parameters for limiting lease cost increases to Legacy Businesses under the Legacy Business Rebate Program.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 2.105 authorizes all legislative acts by written ordinance or resolution, subject to approval by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would add Sections 2A.242 and 2A.243 to the City's Administrative Code to (a) direct the Small Business Commission to establish a Legacy Business Registry, (b) authorize an administrative fee for the Registry not to exceed $50, and (c) for the next five years, provide a rebate to Qualified Legacy Businesses and Qualified Landlords. Qualified Legacy Businesses would be required to purchase the real property from which they operate, and Qualified Landlords would be required to purchase the real property from which the Legacy Businesses operate and extend the term of the Legacy Business's lease by at least ten years. The rebate would be equal to the Real Estate Property Transfer Tax levied on the purchase.

Legacy Business Registry

Under the proposed ordinance, the Small Business Commission would be responsible for establishing and maintaining a registry of Legacy Businesses in San Francisco. The Administrative Code would define a Legacy Business based on the following criteria:

- The business is a bar, restaurant, retail store, arts space, performance venue or business primarily engaged in Production, Distribution and Repair activities, as described in Article 2 of the City's Planning Code;
- The business has operated in San Francisco for 30 or more years, with no more than a two-year break in operations and must have been established and currently based in San Francisco;
- The business has contributed to the neighborhood's history and/or identity of a particular neighborhood or community; and
- The business is committed to maintaining the physical features or traditions that define the business, including craft, culinary or art forms.

The Small Business Commission, in consultation with the Controller, would be responsible for establishing a one-time administrative fee to offset the costs of administering this new program, but not to exceed $50, for Legacy Businesses to pay for applying to be included in the Legacy Business Registry.

Qualified Rebates

Under the proposed ordinance, a Legacy Business that purchases the real property from which it operates its business could be entitled to a rebate from the City. Similarly, a landlord that purchases a real property from which a Legacy Business operates and extends the term of the Legacy Business's lease by at least an additional ten years, could be entitled to a rebate from the City. Under the proposed ordinance, the Qualified Legacy Business or Qualified Landlord would have to meet all the specified requirements and regulations established by the Executive Director of the Office of Small Business to qualify for such rebates.

Such rebates would be equal to the Real Property Transfer Tax with respect to the purchase of the real property from which the Legacy Business operates its business. However, the proposed ordinance limits the total combined rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of $400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. If the total rebates requested exceed $400,000 in a fiscal year or exceed the total annual amount previously appropriated by the Board of Supervisors for this purpose, the City would pay rebates to Qualified Legacy Businesses and Qualified Landlords based on the date the Office of Small Business received the rebate applications, up to the amount appropriated in the City's annual budget.

The rebates would be limited to that portion of the Real Property Transfer Tax that relates directly to the land and improvements from which the Legacy Business operates its business. Therefore, if a purchase includes improvements that the Legacy Business does not use to operate its business, the proportional square footage of the Legacy Business would be applied to the total Real Property Transfer Tax to determine the proportional amount eligible for rebate.

Small Business Commission and Office of Small Business

The Small Business Commission would be responsible for surveying San Francisco's Legacy Businesses and make recommendations to the Board of Supervisors no later than June 30, 2015 for programs for Legacy Businesses, such as technical assistance, marketing, lease and acquisition assistance, public education, financial incentives and business and continuity initiatives.

The Executive Director of the Office of Small Business, after holding a public hearing and consulting with the Controller, would be responsible for developing rules and regulations to implement the proposed Legacy Business Rebate Program, including the application procedures, documentation required to qualify for rebates, amount of rebates, appeal process and other necessary provisions.

Reports by Office of Small Business and Controller

By May 1 of each year, the Executive Director of the Office of Small Business would be required to report to the Board of Supervisors on the status of the Legacy Business Rebate Program, including (a) identifying each Qualified Legacy Business and amount of rebate paid to each, and

(b) identifying each Qualified Landlord, and the associated Legacy Business which entered into an extended lease, including the original lease term, extended term and amount of rebate paid to each Qualified Landlord. By September 1 of each year, the Controller would be required to perform an assessment and review of the effect of the Legacy Business Rebate Program for the prior fiscal year and submit such analysis to the Board of Supervisors.

The proposed ordinance would be effective 30 days after enactment and expire on December 31, 2019, a term of approximately five years.

FISCAL IMPACT

Ms. Regina Dick-Endrizzi, Executive Director of the Office of Small Business advises that based on preliminary estimates there are approximately 200-300 Legacy Businesses in San Francisco. A one-time administrative fee of $50 is estimated to be charged to Legacy Businesses which apply for inclusion in the new registry, according to Ms. Dick-Endrizzi. To implement this Legacy Business Registry, Ms. Dick-Endrizzi estimates expending $6,000-$8,000, to hire a consultant to develop an enhanced data format to be integrated with the Office of Small Business' existing computer management system. This cost would be offset by the administrative fees collected and absorbed within the Office of Small Businesses' existing budget.

The proposed ordinance also requires the Small Business Commission to survey San Francisco's Legacy Businesses and make recommendations to the Board of Supervisors by June 30, 2015 for programs for Legacy Businesses, such as technical assistance, marketing, lease and acquisition assistance, public education, financial incentives and business and continuity initiatives. Ms. Dick-Endrizzi advises that this survey and report to the Board of Supervisors will be conducted with existing staff, within their existing budget. However, depending on the results of the survey and the recommendations made by the Small Business Commission regarding Legacy Businesses, Ms. Dick-Endrizzi notes that there may be additional costs to implement these recommendations in the future. For example, to develop public relations/marketing programs, including logos and signage for businesses, marketing materials and web presence, and to develop and maintain a business technical assistance program for Legacy Businesses.

Ms. Dick-Endrizzi also notes that the Office of Small Business is currently working with the University of San Francisco's (USF) School of Management and its Gellert Family Business Resource Center, at no cost to the City, to assist in designing the survey, reviewing databases and reviewing technical assistance options.

The proposed rebates to Qualified Legacy Businesses and Qualified Landlords, which would be equal to the Real Property Transfer Tax paid to the City for the subject property, would be the most significant cost of the proposed ordinance. Ms. Dick-Endrizzi cannot currently estimate the number of Qualified Legacy Businesses and Qualified Landlords that would seek rebates or the amount of such rebates. However, the proposed ordinance limits the total combined rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of $400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. In FY 2013-14, the City collected $261,924,190 in Real Property Transfer Taxes, which are primarily deposited into the City's General Fund. The proposed ordinance specifies that the City would pay the rebates from the City's General Fund.

POLICY CONSIDERATION

Under the proposed ordinance, a Real Property Transfer Tax rebate would be paid by the City to Qualified Landlords that purchase a real property from which a Legacy Business operates if the landlord extends the term of the Legacy Business's lease by at least an additional ten years. However, the proposed ordinance does not address the monthly lease costs that would be charged by the Qualified Landlord to the Legacy Business. If the Qualified Landlord charges significantly increased rent to the Legacy Business for the extended ten year term, such that the Legacy Business could no longer afford to stay in that location, the merits of the proposed ordinance may be negated.

Under the proposed ordinance, the Executive Director of the Office of Small Business, after holding a public hearing and consulting with the Controller, would be charged with developing rules and regulations to implement the proposed Legacy Business Rebate Program. Whether the Executive Director could limit monthly lease cost increases if a landlord otherwise qualifies to receive the subject rebates should be determined. Alternatively, the proposed ordinance could be amended to potentially limit such future lease increases for Legacy Businesses, if Qualified Landlords directly benefit from this ordinance. Therefore, the proposed ordinance should be amended to provide for limited increases in monthly lease costs for properties in which the owner receives a Real Property Transfer Tax rebate. The Executive Director of the Office of Small Business should recommend to the Board of Supervisors the process and parameters for limiting lease cost increases to Legacy Businesses under the Legacy Business Rebate Program.

RECOMMENDATIONS

1. Amend the proposed ordinance to (a) provide for limited increases in monthly lease costs for properties in which the owner receives a Real Property Transfer Tax rebate; and (b) request the Executive Director of the Office of Small Business to recommend to the Board of Supervisors the process and parameters for limiting lease cost increases to Legacy Businesses under the Legacy Business Rebate Program.

2. Approval of the proposed ordinance as amended is a policy decision for the Board of Supervisors.

Item 6 **File 14-1037**	**Departments:** Controller's Office San Francisco Unified School District (SFUSD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend Section 10.60 of the City's Administrative Code to update provisions regarding the City's Rainy Day Reserve Fund and revise the binding financial policies and required funding levels regarding the City's General Reserve.

Key Points

- Proposition C, approved by San Francisco voters on November 4, 2014, divided the existing Rainy Day Reserve into a: (1) City Rainy Day Reserve and (2) School Rainy Day Reserve. Proposition C requires that 50% of the balance in the Rainy Day Reserve be transferred to the School Reserve and that 75% of future deposits go to the City Reserve and 25% go to the School Reserve. Withdrawals from the City Reserve would remain the same as under the current provisions. In accordance with Proposition C, the SFUSD could withdraw up to 50% of the funds in the School Reserve in the years when the SFUSD anticipates collecting less revenue per student and significant SFUSD employee layoffs. The proposed ordinance would amend the Administrative Code to comply with provisions in Proposition C.
- For FY 2014-15, the General Reserve is required to be budgeted at no less than 1.5% of budgeted regular General Fund revenues. Currently, Section 10.60(b) specifies that the General Reserve must be funded at no less than 2% of budgeted regular General Fund revenues by FY 2016-17. Under the proposed ordinance, the General Reserve would be required to be funded at no less than 3% of budgeted regular General Fund revenues by FY 2019-20 and thereafter and provide more flexible replenishment requirements.

Fiscal Impact

- Since FY 2003-04, the City has deposited $118.23 million into the Rainy Day Reserve, withdrawn $34.14 million and transferred $78.94 million to the SFUSD. The current unaudited balance in the Rainy Day Economic Stabilization Reserve is $60.30 million. In accordance with Proposition C, $24.6 million would be transferred to the School Reserve, leaving $24.6 million in the City Reserve.
- The proposed ordinance would result in an increased contribution to the General Reserve of approximately $14 million in FY 2017-18, $28 million in FY 2018-19 and $42 million in FY 2019-20.

Recommendations

1. Amend page 4, line 13 that currently specifies the required level of the General ***Fund*** shall be reduced to 1.50 percent to specify the required level of the General ***Reserve*** shall be reduced to 1.50 percent.
2. Given that San Francisco voters approved Proposition C on November 4, 2014, approve the proposed provisions addressing the Rainy Day Reserves, which are consistent with language in Proposition C.
3. Approval of the provisions in the proposed ordinance to increase the City's General Reserve from 2% to 3%, in periods of sustained economic growth and allow a reduction in the General Reserve to 1.5% during economic downturns is a policy decision for the Board of Supervisors.

MANDATE STATEMENT AND BACKGROUND

Rainy Day Reserve

Charter Section 9.113.5 established a Rainy Day Reserve[1] to set-aside funds when the City collects greater-than-usual revenues (when projected General Fund annual revenues are more than 5% above the current fiscal year). These Rainy Day Reserve monies are then available for use in years when the City experiences revenue shortfalls. Administrative Code Section 10.60 summarizes all of the City's Reserve Policies, including the Rainy Day Reserve, which specifies 50% of the excess revenues (above the 5%) can be deposited into the Rainy Day Reserve; however, total monies in the Rainy Day Reserve and Budget Stabilization Reserve may not exceed 10% of regular General Fund revenues. Currently, the City may expend the Rainy Day Reserve when (a) revenue collections are less than the previous year for San Francisco Unified School District (SFUSD) operations, or (b) SFUSD collects less revenue per student than the previous year requiring significant layoffs, such that up to 25% of the Rainy Day Reserve can be provided to the SFUSD.

Proposition C, recently approved by San Francisco voters on November 4, 2014, (a) extended the Children's Fund and the related Property Tax set-aside through 2041, (b) extended the Public Education Enrichment Fund for universal preschool, (c) created a new Council to advise the City and SFUSD, and (d) divided the existing Rainy Day Reserve into two accounts: (1) City Rainy Day Reserve (City Reserve) and (2) School Rainy Day Reserve (School Reserve).

Regarding the changes to the Rainy Day Reserve, Proposition C requires that 50% of the balance in the Rainy Day Reserve be transferred to the School Reserve. In addition, 25% of the City's future Rainy Day Reserve deposits would go to the School Reserve and 75% would go to the City Reserve. The SFUSD could then withdraw up to 50% of the funds in the School Reserve in the years when the SFUSD anticipates collecting less revenue per student than in the previous fiscal year and requires significant SFUSD employee layoffs. In addition, the SFUSD Board could, by a two-thirds vote, override this 50% limit and withdraw any amount in the School Reserve in any year.

General Reserve

Administrative Code Section 10.60(b) specifies that the City's budget shall include a General Reserve to address revenue weaknesses, expenditure overages or other programmatic goals not anticipated during the annual budget process. The Mayor and the Board of Supervisors may appropriate monies from the General Reserve, following adoption of the annual budget, at any time for any lawful governmental purpose by approving a supplemental appropriation ordinance. Year-end balances in the General Reserve are carried forward to subsequent years, and when necessary, the City is required to appropriate sufficient funds to the General Reserve

[1] There are two accounts within the Rainy Day Reserve: the Rainy Day Economic Stabilization Reserve and the Rainy Day One Time Reserve. This report only addresses the Rainy Day Economic Stabilization Reserve, which was amended by Proposition C. The Rainy Day One-Time Reserve is only for one-time expenses by the City.

in the Annual Appropriation Ordinance to restore the General Reserve to the level specified in this Section of the Code.

For FY 2014-15, the General Reserve is required to be budgeted at no less than 1.5% of budgeted regular General Fund revenues. In addition, Section 10.60(b) specifies that the General Reserve must be funded at no less than 2% of budgeted regular General Fund revenues no later than FY 2016-17, as summarized in Table 1 below.

General City Requirements

Charter Section 9.120 provides that the Controller shall propose and the City shall adopt long-range financial policies that are consistent with generally recognized principles of public finance, including addressing (1) creation and maintenance of adequate reserves; (2) use of volatile revenues; (3) issuance of debt; and (4) institution of extraordinary financial and budgetary measures to facilitate the City's recovery from physical calamities. The City shall adopt such financial policies as ordinances which shall be codified in the City's Administrative Code, upon approval by the Mayor and the Board of Supervisors by a two-thirds' vote. Charter Section 9.120(c) also allows the Board of Supervisors by resolution with a two-thirds vote to suspend, in whole or in part, any ordinance, containing these policies for the succeeding fiscal year.

Charter Section 2.105 authorizes all legislative acts by written ordinance or resolution, subject to majority vote of the members of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Section 10.60 of the City's Administrative Code to update provisions regarding the City's Rainy Day Reserve Fund and revise the binding financial policies and required funding levels regarding the City's General Reserve.

Rainy Day Reserves

The proposed ordinance would amend Section 10.60(a) of the City's Administrative Code to comply with the new provisions approved by San Francisco voters in Proposition C on November 4, 2014. Specifically, there would be both a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve). Under the new provisions, 75% of the future deposits would go to the City Reserve and the remaining 25% would be deposited to the School Reserve.

The provisions for the City to expend funds from the City Reserve will remain the same, such that if the Controller projects total General Fund revenues for the upcoming budget year will be less than the current year's total General Fund revenues, up to 50% of the balance in the City Reserve may be appropriated in the budget, but no more than the shortfall in General Fund revenues. New provisions specify that if the City made an appropriation from the City Rainy

Day Reserve in the current year and the immediately preceding budget year, the City would not be required to make deposits to the Rainy Day Reserves in the upcoming year.

Currently, the City may expend up to 25% of the existing total Rainy Day Reserve to help the SFUSD in years when certain conditions are met. These appropriations are currently subject to approval by the Mayor and the Board of Supervisors. Under the proposed provisions, the SFUSD would be able to expend 50% from the new School Reserve in years when those same conditions are met, however these withdrawals would no longer be subject to appropriation approval by the Mayor and the Board of Supervisors. Instead, such withdrawals would be under the authority of the SFUSD School Board.

General Reserves

The proposed ordinance would specifically:

- Increase the required funding of the General Reserve to three percent of budgeted regular General Fund revenues by FY 2019-20. As shown in Table 1 below, currently the General Reserve is required to increase to 2.0% of General Fund revenues by FY 2016-17 and remain at this 2.0% level each fiscal year thereafter. Under the proposed ordinance, the General Reserve would still be required to increase to 2.0% by FY 2016-17, but then would be required to continue increasing to 3.0% of General Fund revenues by FY 2019-20, as summarized in Table 1 below. Each fiscal year after FY 2019-20, the General Reserve would be required to be funded at no less than 3.0% of General Fund revenues for that fiscal year.

Table 1: Current and Proposed General Fund Reserve Requirements

Fiscal Year	Current General Reserve Requirements (No less than)	Proposed General Reserve Requirements (No less than)	Increase
FY 2010-11	$25 million	$25 million	$0
FY 2011-12	25 million	25 million	0
FY 2012-13	1.00% of General Fund	1.00% of General Fund	0
FY 2013-14	1.25% of General Fund	1.25% of General Fund	0
FY 2014-15	1.50% of General Fund	1.50% of General Fund	0
FY 2015-16	1.75% of General Fund	1.75% of General Fund	0
FY 2016-17	2.00% of General Fund	2.00% of General Fund	0
FY 2017-18	2.00% of General Fund	2.33% of General Fund	.33%
FY 2018-19	2.00% of General Fund	2.66% of General Fund	.66%
FY 2019-20	2.00% of General Fund	3.00% of General Fund	1.00%
Thereafter	2.00% of General Fund	3.00% of General Fund	1.00%

- During any fiscal year that a withdrawal from the City's Rainy Day Reserve is appropriated, the required level of the General Reserve would be reduced to 1.5% of budgeted General Fund revenues for that fiscal year. Under the proposed ordinance, the City would be allowed to increase funding levels into the General Reserve over the following five fiscal years, after such a reduction, to return to the required 3.0%, as summarized in Table 2 below.

Table 2: Required General Fund Reserve Contributions if Rainy Day Reserve Appropriations

Fiscal Year	Proposed General Reserve Requirements (No less than)
Rainy Day Reserve Appropriation	1.50% of General Fund
First Fiscal Year After	1.75% of General Fund
Second Fiscal Year After	2.00% of General Fund
Third Fiscal Year After	2.33% of General Fund
Fourth Fiscal Year After	2.66% of General Fund
Fifth Fiscal Year After	3.00% of General Fund

- Allow the Board of Supervisors, by resolution adopted by two-thirds, to temporarily suspend these General Reserve provisions for the current or upcoming budget year, following a natural disaster that causes the Mayor or Governor to declare a state of emergency or for any other purpose.

The Controller's Office is recommending these amendments to the General Reserve to help the City weather economic downturns and provide additional flexibility for replenishing the General Reserve over several years.

FISCAL IMPACT

Rainy Day Reserves

As shown in Table 3 below, based on information provided by the Controller's Office, since FY 2003-04 when the Rainy Day Reserve was established, the City has deposited $118.23 million into the Reserve and withdrawn $34.14 million only in FY 2009-10, to offset revenue losses from the 2008 financial crises. In addition, over the last 11 years the City has transferred $78.93 million to the SFUSD from this Rainy Day Reserve to offset declining per pupil revenues. The current unaudited balance in the Rainy Day Economic Stabilization Reserve is $60.30 million, as shown in Table 3 below.

The FY 2014-15 budget appropriated a transfer of $11.08 million to the SFUSD from the Rainy Day Reserve. In accordance with Proposition C, 50% of the remaining balance of $49.22 million ($60.3 million less $11.08 million) or $24.6 million would be transferred to the School Reserve in January 2015. This would leave a balance of $24.6 million in the City Reserve.

Table 3: Rainy Day Reserve Fund Since FY 2003-04 (Millions)

Rainy Day Economic Stabilization Reserve	City Deposits (Withdrawals)	School District (Withdrawals)	Balance
FY 2003-04	-	-	$55.14
FY 2004-05	-	($7.00)	48.14
FY 2005-06	$49.77	-	97.91
FY 2006-07	19.65	-	117.76
FY 2007-08	-	-	117.76
FY 2008-09	-	(19.26)	98.30
FY 2009-10	(34.14)	(24.57)	39.59
FY 2010-11	-	(6.14)	33.45
FY 2011-12	6.02	(8.36)	31.11
FY 2012-13	-	(7.77)	23.34
FY 2013-14	42.79	(5.83)	60.30
Total	$84.09	($78.93)	

Under the proposed ordinance, the same requirements for deposits would be in effect such that 50% of excess revenues (above the 5%) can be deposited into the Rainy Day Reserve; however, the City would now allocate 25% of such future deposits to the School Reserve, and allocate 75% to the City's Reserve. The Controller's Office does not project either future deposits or withdrawals from this Rainy Day Reserve. However, the deposits into the City's Reserve would be available for use by the City in the next economic downturn, subject to appropriation approval by the Board of Supervisors.

General Reserve

The amount of the General Reserve is currently $58 million, or 1.5% of the City's $3.89 billion FY 2014-15 General Fund budget. As shown in Table 1 above, the General Reserve is proposed to increase to 2.0% of the General Fund budget by FY 2016-17 under both the existing and proposed provisions.

However, under the proposed ordinance, the General Reserve would continue to increase annually beginning in FY 2017-18 from 2.0% to 2.33% and annually thereafter through FY 2019-20 to 3.0%. Assuming there is no downturn in the economy, the Controller's Office estimates the increase in the General Reserve requirement from 2.0% to 2.33% of General Fund revenues in FY 2017-18 would require an increased contribution of approximately $14 million. In subsequent years, as the required percentage level of General Reserve increases, the required contributions will increase similarly resulting in an estimated increased contribution to the General Reserve of approximately $28 million in FY 2018-19 and approximately $42 million in FY 2019-20.

RECOMMENDATIONS

1. Amend page 4, line 13 that currently specifies the required level of the General ***Fund*** shall be reduced to 1.50 percent to specify the required level of the General ***Reserve*** shall be reduced to 1.50 percent.
2. Given that San Francisco voters approved Proposition C on November 4, 2014, approve the proposed provisions addressing the Rainy Day Reserves, which are consistent with language in Proposition C.
3. Approval of the provisions in the proposed ordinance to increase the City's General Reserve from 2% to 3%, in periods of sustained economic growth and allow a reduction in the General Reserve to 1.5% during economic downturns is a policy decision for the Board of Supervisors.

Item 7 **File 14-0946**	**Department:** San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve amendments to each of the existing five leases between the San Francisco International Airport (Airport) to provide food and beverage services in Airport Terminal 3: (1) Bay Area Restaurant Group, JV (BARG), (2) Bayport Concessions, LLC (Bayport), (3) Gotham Enterprises, LLC (Gotham), (4) Sankaku, Inc. (Sankaku), and (5) SSP America, Inc. (SSP).

Key Points

- The Airport entered into ten-year leases in 2005 with BARG, Bayport, Gotham, Sankaku, and SSP to provide food and beverage services in Airport Terminal 3 East. These leases will expire in 2015.
- The Airport began construction for the expansion of Terminal 3 East In January 2014, which required the closure, demolition, and relocation of the existing food and beverage tenants in Terminal 3 East from February 2014 through November 2015. The Airport now seeks to amend the existing leases to set terms for the new premises in the renovated Terminal 3 East.
- The amended leases would: (1) retroactively suspend the Minimum Annual Guarantee rent (MAG) and other fees during the renovation period, (2) provide an Unamortized Construction Reimbursement to each tenant, (3) provide a new ten-year lease term in replacement premises, (4) delete the option to extend the lease for an additional two years, (5) adjust the square footage for each tenant, (6) reinstate the MAG and other fees upon completion of renovations, and (7) adjust the Minimum Investment Amount for replacement premises to $350 per square foot.

Fiscal Impact

- The Airport has suspended the MAG and any fee revenue during the renovation period because the tenants' premises were closed during this time. Additionally, the Airport is providing an Unamortized Construction Reimbursement to the tenants for the previous improvements made under the original lease term. The Airport's costs for the suspended MAG and fee revenue, and unamortized construction reimbursement total $1,037,090. Because of the Airport's rate setting methodology, this will not have an impact on the Airport's overall budget.
- The total MAG and fee revenues paid by the five tenants to the Airport in the first year are $658,419. The MAG is adjusted annually by a formula based on the Consumer Price Index.

Recommendations

- Amend the proposed resolution to provide for retroactivity to February 2014.
- Amend the title of the proposed resolution on lines 5, 7, 9, 11 and 13 to delete the references to "plus one two-year option".
- Amend the proposed resolution on pages 2 and 3 to change the Reimbursement of Unamortized Construction Costs to read $57,335, $57,066, $198,685, $23,203, and $52,077, respectively.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) entered into five leases in 2005 to provide food and beverage services in Airport Terminal 3 based on a competitive process. The five leases are with (1) Bay Area Restaurant Group, JV (BARG) for Max's Eatz and Max's the Greek, (2) Bayport Concessions, LLC (Bayport) for Willow Creek Grill, (3) Gotham Enterprises, LLC (Gotham) for Peet's Coffee & Tea, (4) Sankaku, Inc. (Sankaku) for Sankaku, and (5) SSP America, Inc. (SSP) for Anchor Steam. Although the specific month for commencing and ending each lease varies, all five of these leases extend for ten years, from 2005 to 2015 and include one option to extend for an additional two-year period.

Each lease stipulates the rent to be paid by each tenant to the Airport on an annual basis, which includes the greater of Minimum Annual Guarantee (MAG) rent[1] or percentage rent based on gross revenues[2], and various fees and charges, including a Tenant Infrastructure Fee ($15 per square foot), Food Court Fee ($15 per square foot), and a Promotional Charge ($1 per square foot). Each lease also requires each tenant to commit a Minimum Investment Amount ($250 per square foot) to build out their premises.

The Airport began construction for the expansion of Terminal 3 East of Boarding Area F in January 2014. This Terminal 3 East expansion project is part of the larger Terminal 3 renovation project and includes expanding the security checkpoint and Gates 68 through 71 in Boarding Area F. This construction requires the closure, demolition, and relocation of the existing food and beverage tenants in Terminal 3 East from February 2014 through November 2015. The overall Terminal 3 renovation project is estimated to cost $224,637,390 and is being funded with Airport Revenue Bonds.

DETAILS OF LEGISLATION

The proposed resolution would approve amendments to each of the existing five leases between the Airport and the following five tenants that provide food and beverage services in Terminal 3 East: (1) BARG, (2) Bayport, (3) Gotham, (4) Sankaku, and (5) SSP. The proposed leases require each tenant to renovate their individual premises in Terminal 3 East to coincide with the Airport's Terminal 3 East renovation project.

Specific Lease Amendments

The proposed lease amendments will make the following changes to the five existing leases during the time that Terminal 3 East is being renovated:

[1] The MAG rent is also subject to annual adjustments based on the Consumer Price Index and the number of total enplanements that year, with MAG rent never being lower than the MAG rent of the prior year.

[2] Percentage rent is calculated as a range of six to 12 percent or gross revenues.

(1) Suspend the MAG, Tenant Infrastructure Fee, Food Court Fee and Promotional Charges paid by the tenants during the renovation period because each of the tenants were required to close and renovate their premises for approximately 22 months, from February 2014 through November 2015. Because tenant operations will be closed during the renovation period, no sales will be made, and therefore percentage rent will not be applied;

(2) Provide an Unamortized Construction Reimbursement by the Airport to each tenant to compensate for the tenant's initial improvements required under the existing leases, as shown in Table 4 below;

(3) Provide replacement premises and a new ten-year lease term commencing upon completion of renovations;

(4) Delete the option to extend each lease for an additional two years;

(5) Adjust the square footage leased by each tenant based on the renovations as shown in Table 2 below;

(6) Reinstate and adjust the MAG rent and other fees for each tenant upon completion of renovations, as reflected in Table 2 below[3]; and

(7) Adjust the Minimum Investment Amount to $350 per square foot to renovate the tenants' individual premises, an increase of $100 as compared to the $250 per square foot Minimum Investment Amount under the existing leases.

As noted above, the renovation period is expected to extend from February 2014 through November 2015, approximately 22 months. The Airport has not collected the MAG or percentage rent and other fees from these five tenants since February 2014 as contemplated in the proposed lease amendments. Therefore the proposed resolution should be amended to be retroactive to February 2014.

Mr. Tomasi Toki, Principal Property Manager at the Airport, advises that the proposed amendments to the existing leases would provide a new ten-year lease term, but remove the existing option to extend each lease for an additional two years. However, the title of the proposed resolution references a term of ten years plus one two-year option for each of the subject leases. Therefore, the title of the proposed resolution should be amended on lines 5, 7, 9, 11 and 13 to delete the references to "plus one two-year option".

Tenants Area to be Renovated and Changes to the MAG

Mr. Toki reports that only leased premises located in Terminal 3 East will be closed during the renovation period. Premises leased by these same five tenants, under the same lease, in other areas of the Airport outside of Terminal 3 East will not be renovated and will therefore continue to pay the MAG or percentage rent, Tenant Infrastructure Fees, Food Court Fees and Promotional Charges during the Terminal 3 East renovation period. Table 1 below shows the

[3] As in the existing leases, the tenants will continue to pay the Airport the greater of the MAG or percentage rent based on gross revenues.

total square footage for each of the five tenants and the Terminal 3 East square footage to be closed during the renovation period.

Table 1: Leased Tenant Square Footage in Airport

Tenant	Terminal 3 East Square Feet Closed During Renovations	Square Feet Open During Renovations	Total Airport Square Footage
BARG	669	1,440	2,109
Bayport	633	1,440	2,073
Gotham	250	477	727
Sankaku	705	N/A	705
SSP	2618	N/A	2,618
Total	**4,875**	**3,357**	**8,232**

Under the proposed amendments, the replacement locations for the five tenants would increase the total square feet by 725, as shown in Table 2 below.

Table 2: Changes to Square Footage

Tenant	Existing Square Feet	Replacement Square Feet	Increase
BARG	2,109	2,123	14
Bayport	2,073	2,092	19
Gotham	727	1,159	432
Sankaku	705	707	2
SSP	2,618	2,876	258
Total	**8,232**	**8,957**	**725**

FISCAL IMPACT

The Airport suspended the MAG and fees for the five tenants during the 22-month renovation period, and will reimburse the tenants for their unamortized construction costs for the original lease location. These costs to the Airport are offset by percentage rent paid by the five tenants during the period in which the lease locations were operating. The reduced revenues to the Airport are $1,037,090, as shown in Table 3 below.

Table 3: Suspended Revenues and Unamortized Construction Reimbursement During the 22-month Renovation Period

Tenant	Suspended MAG During Renovation Period*	Suspended Fees During Renovation Period	Collected Rent* and Fees Prior to Closure	Unamortized Construction Reimbursement	Estimated Loss of Revenue to Airport
BARG	$64,906	$38,021	($3,484)	$57,335	$156,779
Bayport	60,996	35,975	-3,676	57,066	150,361
Gotham	24,530	14,208	-4,077	23,203	57,864
Sankaku	67,934	40,067	-4,943	52,077	155,135
SSP	251,119	76,795	-9,648	198,685	516,951
Total	**$469,485**	**$205,067**	**($25,828)**	**$388,366**	**$1,037,090**

The Airport's reimbursement to each of the tenants for unamortized construction costs listed in the proposed resolution is different than the amounts included in the lease amendments, which are shown in Table 4 above. Mr. Toki confirms that the amounts listed in Table 4 above are the correct amounts. Therefore the proposed resolution should be amended on pages 2 and 3 to state the following corrected Unamortized Construction Reimbursements amounts:

- BARG (Max the Greek) – Delete $66,058, and substitute $57,335;
- Bayport (Willow Creek Grill) – Delete $63,595 and substitute $57,066;
- Gotham (Peet's Coffee & Tea) – Delete $26,208 and substitute $23,203;
- Sankaku – Delete $60,000 and substitute $52,077;
- SSP (Anchor Steam) – Delete $221,667 and substitute $198,685.

Impact on City General Fund

In accordance with the Lease and Use Agreement between the Airport and the airlines, 15 percent of all concessions revenues realized by the Airport are transferred to the City's General Fund as an Annual Service Payment. According to Mr. Bruce Robertson, Budget Director at the Airport, due to the closure of the tenants' operations as part of the Airport's Terminal 3 East renovation, the Airport will lose concessions revenue at these locations. However, Mr. Robertson reports that this loss of revenues will be offset by higher concessions revenues elsewhere in the Airport. In FY 2014-15, the Airport estimates providing an Annual Service Payment of approximately $38,400,000, based on 15 percent of the Airport's total concessions revenue, to the City's General Fund.

Collected MAG and Fees during the Lease Term

According to the new ten-year leases, the tenants will pay the MAG and/or percentage rent based on gross revenues whichever is greater, Tenant Infrastructure Fee, Food Court Fee, and Promotional Charge upon completion of the renovations of Terminal 3 East. The total MAG and fee revenues paid by the five tenants to the Airport in the first year are $658,419. The MAG is adjusted annually by a formula based on the Consumer Price Index.

Table 4: Estimated Revenues to be Realized by Airport in the First Lease Year

BARG	$154,995
Bayport	153,103
Gotham	94,936
Sankaku	59,042
SSP	196,345
Total	**$658,419**

Impact of Suspended MAG and Fees on Airport Budget

As a result of the Airport's "residual rate setting methodology" (breakeven policy) used by the Airport to determine rental rates, landing fees, and related fees for all Airlines, the proposed resolution amending the concession leases, will not result in any budgetary shortfall for the Airport. The residual rate setting methodology is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from all of the airlines at the Airport, plus the non-airline revenues received by the Airport, is equal to the Airport's total costs, including debt service and operating expenditures. Therefore, any reduction to concession revenues, such as the subject suspension of the MAG and fees under the proposed resolution, will not have a direct impact on the Airport's budget.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactivity to February 2014.
2. Amend the title of the proposed resolution on lines 5, 7, 9, 11 and 13 to delete the references to "plus one two-year option".
3. Amend the proposed resolution on pages 2 and 3 to change the Reimbursement of Unamortized Construction Costs to replace: (1) $66,058 with $57,335; (2) $63,595 with $57,066; (3) $221,667 with $198,685; (4) $26,208 with $23,203, and (5) 60,000 with $52,077.
4. Approve the proposed resolution as amended.