

File No. 120139

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee Date: March 7, 2012

Board of Supervisors Meeting

Date _____

Cmte Board

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

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Completed by: Victor Young

Date: March 2, 2012

Completed by: Victor Young

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 - Hudson Group (HG) Retail, LLC]
2

3 **Resolution approving the Terminal 3 News & Specialty Store Lease between Hudson**
4 **Group (HG) Retail, LLC, and the City and County of San Francisco, acting by and**
5 **through its Airport Commission.**
6

7 WHEREAS, The Airport Commission has requested proposals for the Terminal 3 News
8 & Specialty Store Lease; and

9 WHEREAS, Hudson Group (HG) Retail, LLC was the highest, most responsive and
10 responsible proposer; and,

11 WHEREAS, The Airport Commission approved Resolution No. 11-0210, adopted
12 September 20, 2011, awarding the Terminal 3 News & Specialty Store Lease to Hudson
13 Group (HG) Retail, LLC; now, therefore, be it

14 **RESOLVED**, That the Board of Supervisors hereby approves the Terminal 3 News &
15 Specialty Store Lease No. 11-0210, copies of which are contained in Board of Supervisors'
16 File No. 120139.
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Item 1
File 12-0139

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- Resolution approving a new seven-year lease between the Airport and the Hudson Group Retail, LLC (Hudson Group) for three locations, totaling approximately 2,574 square feet, including two newsstands and one specialty store in Terminal 3, from approximately December 4, 2012 through December 3, 2019.

Key Points

- The proposed lease is for three separate locations in Terminal 3, identified as Space T3.2.076, Space F.2.021, and Space F.2.035.
- Space T3.2.076, located in Terminal 3 near the International Terminal, is currently occupied by the Marilla Chocolate Company (Marilla) for use as a specialty retail store. The existing space permit for 1,263 square feet began on November 11, 2008 as a six month trial. According to Mr. John Reeb, Airport Senior Property Manager, the Airport decided not to pursue a longer lease term with Marilla, and continued a month-to-month space permit with Marilla while the Airport decided on how to develop the space.
- Space F.2.021 and Space F.2.035, located in Terminal 3, Boarding Area F, were previously occupied by United Airlines for use as the United Airlines Credit Union and Standby Meals Room respectively. In 2010, as part of the 2011 Lease and Use Agreement, United Airlines returned Space F.2.021 and Space F.2.035 to the Airport, which have remained vacant.
- On January 18, 2011, the Airport issued a new competitive Request for Proposals (RFP) for Space F.2.021, Space F.2.035, and Space T3.2.076, as a single lease totaling 2,574 square feet, for two newsstands, and a specialty store. The Airport selected Hudson Group as the highest ranking, responsive, and responsible proposer.

Fiscal Impacts

- Under the proposed new seven-year lease between the Airport and Hudson Group, the combined rent for the three spaces would be the higher of (a) the Minimum Annual Guarantee (MAG), as determined competitively at \$711,000 per year, or (b) percentage rent, as determined by the Airport. The MAG would be adjusted annually based on the standard CPI formula used by the Airport.
- According to Mr. Reeb, Hudson Group's projected annual gross revenues from the three spaces in Terminal 3 are estimated at \$5,026,454 per year. This would result in percentage rent being paid by the Hudson Group to the Airport of \$774,233 per year which is \$63,233 in excess of the MAG of \$711,000.

Policy Consideration

- The revenues generated from the proposed concessions lease 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 are subject to the Board of Supervisors approval.

Background

The proposed lease is for three separate locations in Terminal 3, identified as Space T3.2.076, Space F.2.021, and Space F.2.035.

Space T3.2.076

Space T3.2.076, located in Terminal 3 near the International Terminal, is currently occupied by the Marilla Chocolate Company (Marilla) for use as a specialty retail store called "Lifestyle Whatever!" The existing space permit for 1,263 square feet of specialty retail space began on November 11, 2008 as a six month trial which included rent of the higher of (a) the Minimum Annual Guarantee (MAG) of \$100,000 per year, or (b) 12 percent of gross sales. According to Mr. John Reeb, Airport Senior Property Manager, on May 25, 2009, the Airport decided not to pursue a longer lease term with Marilla, primarily due to lower than expected sales. The Airport decided to continue a month-to-month space permit with Marilla with rent of 12 percent of gross revenues while the Airport decided on how to develop the space. In 2009 and 2010, with the opening of Terminal 2, the Airport attempted to bundle Space T3.2.076 with other Terminal 2 spaces into a single lease package, but none of the proposed packages were attractive to the Airport or potential tenants. On November 12, 2010, the Airport determined that the best use for Space T3.2.076 was a newsstand.

Spaces F.2.021 and F.2.035

Spaces F.2.021 and F.2.035, located in Terminal 3, Boarding Area F, were previously occupied by United Airlines for use as the United Airlines Credit Union and the Standby Meals Room respectively. In 2010, as part of the 2011 Lease and Use Agreement (Files 10-0351, 10-1213, 11-0210, and 11-1152) United Airlines returned Space F.2.021, consisting of 603 square feet, and Space F.2.035, consisting of 708 square feet, to the Airport, and those locations have remained vacant since that time.

Combined Competitive Request for Proposals (RFP) for Spaces T3.2.076, F.2.021, and F.2.035

In February 2011, the Airport issued a new RFP for Spaces T3.2.076, F.2.021, and F.2.035, as a single lease, for two newsstands and one specialty store. Attachment I, provided by the Airport, shows the location of these three spaces.

According to Mr. Reeb, six companies responded to the RFP. The Airport selected Hudson Group as the highest ranking, responsive, and responsible proposer to provide two newsstands and one specialty store in Terminal 3, based on criteria that included: (a) the proposed concept,

(b) design intent and capital investment, (c) the business plan, (d) customer service and quality control, and (e) the proposed MAG amount.¹

DETAILS OF PROPOSED LEGISLATION

Based on a competitive Request for Proposals basis, the proposed resolution would approve a new seven-year lease between the Airport and the Hudson Group Retail, LLC (Hudson Group) for three locations totaling approximately 2,574 square feet including two newsstands and one specialty store in Terminal 3 from approximately December 4, 2012 through December 3, 2019 (see the Table below).

FISCAL IMPACTS

The proposed new lease between the Airport and Hudson Group would provide 2,574 square feet of space, including two newsstands with 1,866 combined square feet (1,263 plus 603), and one specialty store with 708 square feet. The rent payable by Hudson Group to the Airport is the higher of (a) the Minimum Annual Guarantee (MAG) of \$711,000 per year,² 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 of \$500,001 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 Hudson Group of \$350 per square foot, or a total of \$900,900 for the 2,574 square feet of retail space, for Hudson Group to refurbish and construct two newsstands in Space T3.2.076 and Space F.2.021 and one specialty store in Space F.2.035; and

(b) Promotional Charge of \$1 per square foot per year, or \$2,574 per year payable by Hudson Group to the Airport to reimburse the Airport for marketing and advertising costs.

Under the proposed lease, Hudson Group would be responsible for the cost of utilities, janitorial, and any other operating expenses.

According to Mr. Reeb, Hudson Group's projected annual gross revenues from the proposed 2,574 square feet of leased space located in Terminal 3, once all locations are operational, would be \$5,026,454 per year. Based on these estimated annual gross revenues, the Hudson Group would pay the Airport annual percentage rent of \$774,233, which exceeds the MAG of \$711,000 by \$63,233.

According to Mr. Reeb, Hudson Group is expected to take possession of the three spaces and begin operating the spaces at different times, depending on the completion of tenant improvements by Hudson Group, as shown in the Table below.

¹ See Attachment II for the scoring of the six proposers.

² The MAG would be adjusted annually based on the standard CPI formula used by the Airport.

Table: Approximate Dates of Possession and Operation

Space	Purpose	Approximate Date Hudson Group will take Possession	Approximate Date Hudson Group will begin Operations
T3.2.076	Newsstand	April 1, 2012	July 1, 2012
F.2.021	Newsstand	April 1, 2012	July 1, 2012
F.2.035	Specialty Retail	September 4, 2012	December 4, 2012

POLICY CONSIDERATION

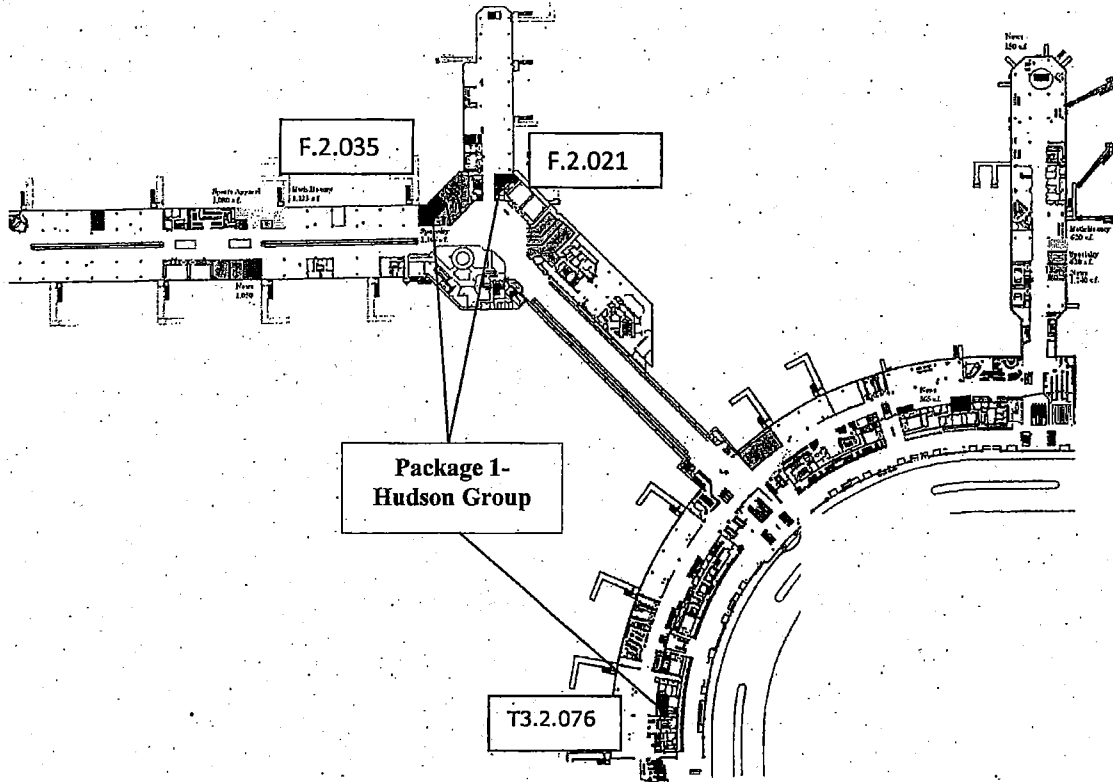
The Airport uses a “breakeven policy” known as the residual rate setting methodology to set the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline revenues (such as concession revenues) received 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.

ATTACHMENT I



ATTACHMENT II

Criteria	Possible Points	Hudson	Paradise	Host	Stellar	IS Travel	PGC
Proposed Concept & Site Visit	30.00	17.4	13.73	15.6	12.4	11.47	12.13
Design Intent & Capital Investments	20.00	11.93	13.67	11.8	10.07	10.13	9.87
Business Plan	20.00	15.0	15.0	14.13	14.8	15.0	11.0
Customer Service and Quality Control	20.00	13.33	13.27	12.47	14.47	13.07	13.53
MAG/Proposal Amount	10.00	10.0	9.17	7.79	9.63	6.64	9.14
Total	100.0	67.67	64.84	61.79	61.37	56.31	55.68



San Francisco International Airport

February 7, 2012

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

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2012 FEB 10 PM 1:40
De

Subject: Approval of the Terminal 3 News & Specialty Store Lease
No. 11-0210, between Hudson Group (HG) Retail, LLC and the City and
County of San Francisco, acting by and through its Airport Commission

Dear Ms. Calvillo:

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval the Terminal 3 News & Specialty Store Lease No. 11-0210, between Hudson Group (HG) Retail, LLC, and the City and County of San Francisco, acting by and through its Airport Commission. The Airport Commission has previously approved the award of the Terminal 3 News & Specialty Store Lease to Hudson Group (HG) Retail, LLC by Resolution No. 11-0210.

Five sets of the following documents are enclosed for review:

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 11-0210;
- Ethics Forms SFEC-126; and
- Copy of Terminal 3 News & Specialty Store Lease No. 11-0210.

Please contact Cheryl Nashir of Airport Revenue Development and Management at (650) 821-4500 if you have questions or concerns regarding this matter.

Very truly yours,

Jean Caramatti
Commission Secretary

Enclosures

cc: Cheryl Nashir

120139

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

JOHN L. MARTIN
AIRPORT DIRECTOR

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

11-0210

RESOLUTION NO. _____

AWARD OF THE TERMINAL 3 NEWS & SPECIALTY STORE LEASE TO HUDSON GROUP (HG) RETAIL, 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 six (6) proposals for the Terminal 3 News & Specialty Store Lease; and

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

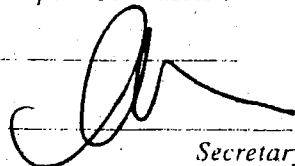
RESOLVED, that this Commission hereby awards the Terminal 3 News & Specialty Store Lease to the Hudson Group under the conditions set forth in the staff memorandum on file with the Commission Secretary, including, but not limited to, a term of seven (7) years and a Minimum Annual Guarantee of \$711,000.00 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 _____



Secretary

LEASE AGREEMENT
FOR THE
TERMINAL 3 NEWS & SPECIALTY STORE
IN TERMINAL 3
AT SAN FRANCISCO INTERNATIONAL AIRPORT

by and between

Hudson Group (HG) Retail, 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. Guggenime
Hon. Peter A. Stern

John L. Martin
Airport Director

September 20, 2011

Lease No.11-0210

** Complete copy of document is
located in

File No. 120139

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

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

Contractor Information (Please print clearly.)	
Name of contractor: Hudson Group (HG) Retail, 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. Joseph DiDomizio, President Michael R. Mullaney, Vice President Jay G. Marshall, Secretary William Wolf, Treasurer	
Contractor address: One Meadowlands Plaza, East Rutherford, NJ 07073	
Date that contract was approved: September 20, 2011	Amount of contract: \$ 711,000.00 (MAG for first year of contract)
Describe the nature of the contract that was approved: Concessionaire for three retail facilities in 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 (Please print clearly.)	
Name of filer: Clerk of the SF Board of Supervisors, Angela Calvillo	Contact telephone number: (415) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., SF, CA 94102	E-mail: bos.legislation@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

