

File No. 110986

Committee Item No. 5

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: October 26, 2011

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <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 |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |

OTHER

(Use back side if additional space is needed)

- | | | |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>* Lease Agreement</u> |
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Completed by: Victor Young

Date: October 21, 2011

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 - Amendment No. 1 to Terminal 3 Newsstands - Pacific Gateway
2 Concessions, LLC]

3 **Resolution approving Amendment No. 1 to Terminal 3 Newsstands Lease No. 04-0165**
4 **between Pacific Gateway Concessions, LLC, and the City and County of San Francisco,**
5 **acting by and through its Airport Commission.**

6
7 WHEREAS, The Airport entered into a Lease with Soto and Sanchez Investment, Inc.
8 for the Terminal 3 Newsstands Lease (the "Lease"), a Disadvantaged Business Enterprise
9 Set-aside, pursuant to Airport Commission Resolution No. 04-0165 adopted on August 17,
10 2004, and Board of Supervisors Resolution No. 712-04 adopted on November 23, 2004; and

11 WHEREAS, The Airport Commission adopted Resolution No. 05-0150 on August 2,
12 2005, which assigned the Lease to Pacific Gateway Concessions, LLC; and

13 WHEREAS, The Airport Commission adopted Resolution No. 11-0153 on June 30,
14 2011, which approves Amendment No. 1 to Terminal 3 Newsstands Lease No. 04-0165 for a
15 holdover period retroactive to March 14, 2011 and expiring no later than March 13, 2012; now,
16 therefore, be it

17 RESOLVED, That the Board of Supervisors hereby approves Amendment No. 1 to
18 Terminal 3 Newsstands Lease No. 04-0165, copies of which are contained in Board of
19 Supervisors' File No. 110986.

Items 5, 6, and 7

Files 11-0986, 11-0987, 11-0988

Department:

San Francisco International Airport (Airport)

EXECUTIVE SUMMARY**Legislative Objectives**

- **11-0986** - Resolution approving the First Amendment to the lease between the Airport and Pacific Gateway Concessions, LLC to retroactively extend the existing lease on a month to month basis for the newsstand in Terminal 3, Boarding Area E, for one year from March 14, 2011 through March 13, 2012.
- **11-0987** - Resolution approving the Fourth Amendment to the lease between the Airport and Pacific Gateway Concessions, LLC to renew the existing lease for four retail concessions in Terminal 1, Boarding Areas B and C, for two years from June 18, 2012 through June 17, 2014, with two additional one year options to extend, or through June 17, 2016.
- **11-0988** - Resolution approving the Third Amendment to the lease between the Airport and Books, Inc. to extend the North Terminal Bookstore Lease in Terminal 3, adjacent to Security Checkpoint F, for 18 months from March 15, 2012 through September 14, 2013.

Key Points

- The Airport is requesting short term extension of two leases and renewal of one lease due to the planned remodel of terminal boarding areas and a security checkpoint adjacent to the lease locations. The short term extensions and lease renewal would give the Airport flexibility to terminate the leases at the beginning of needed construction in each of the terminal boarding areas and the security checkpoint.
- The Airport intends to begin seismic remodeling in Terminal 3, Boarding Area E, adjacent to the existing newsstand space leased by Pacific Gateway Concessions, LLC in the Spring of 2012. The proposed one-year extension of the existing lease between the Airport and Pacific Gateway Concessions, LLC, would be retroactive from March 14, 2011 through March 13, 2012 and would terminate at the time that the seismic remodeling is scheduled to begin. Mr. John Reeb, Airport Senior Property Manager, states that the proposed lease extension, which was approved by the Airport Commission on June 30, 2011, is retroactive due to the time required to complete the lease extension negotiations (File 11-0986).
- The Airport intends to begin seismic remodeling in Terminal 1, Boarding Area B, adjacent to four retail concession spaces leased by Pacific Gateway Concessions, LLC, in approximately 2016. The proposed two-year lease renewal, with two one-year options to extend, between the Airport and Pacific Gateway Concessions, LLC, would terminate in approximately June 2016, if the options to extend are exercised, which is the estimated date that the seismic remodeling would begin (File 11-0987).
- The Airport intends to remove Security Checkpoint F in Terminal 3, adjacent to the North Terminal Bookstore, in approximately FY 2013-14. The proposed 18-month lease extension between the Airport and Books, Inc., from March 15, 2012 to September 14, 2013, would terminate at approximately the estimated start date of the construction to remove Security Checkpoint F in 2013 (File 11-0988).

Fiscal Impacts

- The rental rates in the three leases are based on the higher of percentage rents or the Minimum Annual Guarantee (MAG). Under the proposed resolutions, the rental rates in the two proposed lease extensions and the one proposed lease renewal are the same rental rates as are paid under the existing leases. According to Mr. Reeb, the Airport is not proposing increases in rental rates because the percentage rents are comparable to other Airport concession leases. Mr. Reeb notes that the MAGs are subject to annual Consumer Price Index (CPI) adjustments.

- Mr. Reeb estimates total lease revenues for the three subject leases during the extended lease terms would be \$6,490,985.

Recommendations

- Amend File 11-0986 to specify that the proposed lease extension is retroactive to March 14, 2011.
- Approve File 11-0986, as amended.
- Approve Files 11-0987 and 11-0988.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

DETAILS OF PROPOSED LEGISLATION

The Airport is planning to seismically remodel Terminal 3, Boarding Area E, and Terminal 1, Boarding Area B, and to remove the existing Security Checkpoint F in Terminal 3. The Airport has three existing leases for concessions located adjacent to these locations. The Airport is proposing short term extensions of two leases and renewal of one lease, which were previously awarded through a competitive process, to allow the Airport to reduce or terminate the leases prior to the planned needed seismic remodels and removal of the security checkpoint. According to Mr. John Reeb, Senior Property Manager at the Airport, the Airport typically enters into leases of 5 to 10 years. The Airport is proposing extension or renewal of the three existing concession leases for shorter terms as follows:

File 11-0986. The existing lease between the Airport and Pacific Gateway Concessions LLC, is for two newsstand locations in Terminal 3: Space A in Boarding Area F and Space B in Boarding Area E. Due to the Airport's anticipated closure of Boarding Area E for seismic remodeling, currently scheduled to begin in the Spring of 2012, the Airport and Pacific Gateway Concessions, LLC entered into a 12 month hold-over extension of the existing lease from March 14, 2010 through March 13, 2011. In April 2011, the Airport revised the lease agreement to remove the newsstand located in Space B in Boarding Area E. Because seismic remodeling of Boarding Area E will impact the remaining newsstand located in Space A in Boarding Area F, the Airport proposes extending the existing lease for one year on a month-to-month basis with the expected termination of the lease in March 2012, which is the approximate date that the seismic remodeling is scheduled to begin. The proposed resolution would approve the First Amendment to the existing lease on a month-to-month basis for one year retroactive to March 14, 2011, through March 13, 2012. Mr. Reeb states that the proposed lease extension, which was approved by the Airport Commission on June 30, 2011, is retroactive due to the time required to complete the lease extension negotiations.

File 11-0987. The existing lease between the Airport and Pacific Gateway Concessions, LLC is for four locations in Terminal 1, Boarding Areas B and C, which provide magazines, specialty books, gifts, candy, souvenirs, and other concessions. The future seismic remodel of Terminal 1,

Boarding Area B, tentatively scheduled to begin in 2015 or 2016, will impact the four locations in Boarding Areas B and C. The proposed resolution would approve renewal of a two-year lease from June 18, 2012 through June 17, 2014, with two one-year extensions through June 17, 2016, in order to give the Airport maximum flexibility to adjust the construction schedule for the seismic remodel and terminate the leases prior to the beginning of the needed construction.

File 11-0988. The existing lease between the Airport and Books, Inc. is for the North Terminal Bookstore adjacent to Security Checkpoint F in Terminal 3. The existing lease is currently on a month-to-month holdover through March 15, 2012. The proposed resolution would approve an extension to existing lease for an additional 18 months on a month-to-month basis, from March 15, 2012 through September 14, 2013 due to the future removal of the current Security Checkpoint F, tentatively scheduled to begin in FY 2013-14.

According to Mr. Reeb, the Airport will conduct a new competitive process for the concession locations, currently covered by the three subject leases, once construction is completed at these locations.

FISCAL IMPACTS

The rental rates in the three leases are based on the higher of percentage rents or the Minimum Annual Guarantee (MAG). Under the proposed resolutions, the rental rates in the two proposed lease extensions and the one proposed lease renewal are the same rental rates as are paid under the existing leases. According to Mr. Reeb, the Airport is not proposing increases in rental rates because the percentage rents are comparable to other Airport concession leases. Mr. Reeb notes that the MAGs are subject to annual Consumer Price Index (CPI) adjustments. Mr. Reeb estimates total lease revenues for the three subject leases during the extended lease terms would be \$6,490,985, as follows:

File	Vendor	Percentage Rent	MAG	Term	Expected Total Rental Revenue to be Paid to the Airport
11-0986	Pacific Gateway Concessions	12% of gross revenue up to \$500,000 14% of gross revenue \$500,000 to \$1,000,000 16% of gross revenue greater than \$1,000,000	None	12 months	\$90,985
11-0987	Pacific Gateway Concessions	12% of gross revenue up to \$500,000 14% of gross revenue \$500,000 to \$1,000,000 16% of gross revenue greater than \$1,000,000	\$1,450,000	48 months	\$5,800,000
11-0988	Books, Inc.	8% of gross revenues up to \$2,000,000 10% of gross revenues greater than \$2,000,000	\$400,000	18 months	\$600,000
				Total	\$6,490,985

RECOMMENDATIONS

1. Amend File 11-0986 to specify that the proposed lease extension is retroactive to March 14, 2011.
2. Approve File 11-0986, as amended.
3. Approve Files 11-0987 and 11-0988.

San Francisco International Airport

September 20, 2011

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
 2011 SEP 22 PM 2:03
 AK

Subject: Approval of Amendment No. 1 to Terminal 3 Newsstands Lease No. 04-0165 between Pacific Gateway Concessions, LLC and the City and County of San Francisco, acting by and through its Airport Commission

Dear Ms. Calvillo:

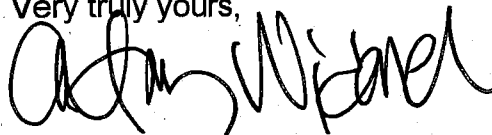
Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval the Amendment No. 1 to Terminal 3 Newsstands Lease No. 04-0165 between Pacific Gateway Concessions, LLC and City and County of San Francisco, acting by and through its Airport Commission. The Airport Commission approved this Amendment No. 1 by Resolution No. 11-0153 adopted on June 30, 2011.

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

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 11-0153;
- Ethics Forms SFEC-126;
- Copy of Amendment No. 1 to Boarding Areas "B" and "C" Principal Retail Concession Lease No. 04-0165; and
- Copy of the Terminal 3 Newsstands Lease No. 04-0165.

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

Very truly yours,


 Jean Caramatti
 Commission Secretary

Enclosures

cc: Cheryl Nashir

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 11-0153

**AMENDMENT NO. 1 TO PACIFIC GATEWAY CONCESSIONS, L.L.C.'S
TERMINAL 3 NEWSSTANDS LEASE NO. 04-0165, A DISADVANTAGED BUSINESS
ENTERPRISE SET-ASIDE**

WHEREAS, by Resolution No. 04-0165, adopted August 17, 2004, the Airport Commission ("Commission") awarded the Terminal 3 Newsstands Lease, A Disadvantaged Business Enterprise Set-Aside (the "Lease"), to Soto and Sanchez Investments Inc., and

WHEREAS, By Resolution No. 05-0150, adopted August 2, 2005, the Commission consented to assignment of the Lease to Pacific Gateway Concessions, L.L.C.; and

WHEREAS, the Lease entered into a holdover period on March 14, 2010 and it is prudent that the holdover continue through no later than March 13, 2012 given the fluctuating schedule of the Boarding Area E Renovation; and

WHEREAS, Pacific Gateway Concessions, L.L.C. has agreed to operate through the holdover period; now, therefore, be it

RESOLVED, that this Commission hereby approves Amendment No. 1 to the Terminal 3 Newsstands Lease No. 04-0165 with Pacific Gateway Concessions, L.L.C. approving a holdover of the Lease exceeding twelve (12) months, retroactive to March 12, 2011 through no later than March 13, 2012, under the existing terms and conditions; and, be it further

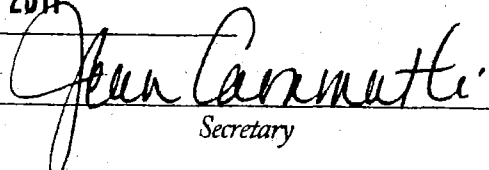
RESOLVED, that the Airport Commission authorizes the Airport Director to enter into any modifications to the Lease that the Airport Director determines, in consultation with the City Attorney, are in the best interests of the City and County of San Francisco ("City"), do not otherwise materially increase the obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of the Lease or this Resolution, and are in compliance with all applicable laws, including the City's Charter; and, be it further

RESOLVED, that the Commission Secretary is hereby directed to request approval of this Amendment No. 1 by Resolution from the Board of Supervisors pursuant to Section 9.118 of the City Charter.

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

at its meeting of _____

JUN 30 2011


Secretary

**AMENDMENT NO. 1 TO
TERMINAL 3 NEWSSTANDS LEASE NO. 04-0165
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

THIS AMENDMENT NO. 1 TO TERMINAL 3 NEWSSTANDS LEASE NO. 04-0165 AT THE SAN FRANCISCO AIRPORT ("Amendment No. 1"), dated as of _____, for reference purposes only, is entered by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation (the "City"), acting by and through the SAN FRANCISCO AIRPORT COMMISSION (the "Airport"), as landlord, and PACIFIC GATEWAY CONCESSIONS, LLC, as tenant ("Tenant").

RECITALS

A. The Airport and Tenant entered into Lease No. 04-0165, dated August 17, 2004 (the "Lease") for those certain retail spaces located at the Airport in Terminal 3 (the "Premises"). The Lease was previously approved by the Airport Commission pursuant to Resolution No. 04-0165, and by the Board of Supervisors pursuant to Resolution No. 712-04.

B. The premises comprises one location across from Gates 68/69 measuring approximately 365 square feet (Space A), and one location adjacent to Gate 64 measuring approximately 440 square feet.

C. The Lease expired on March 13, 2010 and entered holdover status on March 14, 2010, for a period staff had estimated to be approximately twelve months, to maintain the service during the year between the Lease expiration date and long-term temporary closure of Boarding Area E.

D. While Space B has reverted back to the Airport, Space A continues to operate under reduced passenger traffic during the renovation of Boarding Area E.

E. The schedule for the renovation of Boarding Area E has not been finalized. The Airport and Tenant wishes to maintain the high level of service in Terminal 3 until such time as the schedule for the Boarding Area E renovation is clearly defined.

F. The Airport and Tenant have agreed to modify certain terms of the lease during the holdover period, as set forth below.

G. All capitalized terms not otherwise defined herein shall have the same meaning given to them in the Lease.

NOW, THEREFORE, in consideration of the foregoing and for valuable consideration the sufficiency of which is hereby acknowledged, City and Tenant hereby agree to amend the Lease as follows:

AGREEMENT

1. **Recitals.** The foregoing recitals are true and correct and are incorporated herein by this reference as if fully set forth herein.
2. **Effective Date.** The effective date of the modifications to the Lease contained herein shall be March 11, 2011.
3. **Holding Over.** The Lease shall continue on in holdover status, on a month to month basis, from March 14, 2011 to no later than March 13, 2012.
4. **Entire Agreement.** This Amendment No. 1 contains all of the representations and the entire agreement between the parties with respect to the subject matter of this agreement. Any prior correspondence, memoranda, agreements, warranties, or written or oral representations relating to the subject matter of the Amendment No. 1 are superseded in their entirety by this Amendment No. 1. No prior drafts of this Amendment No. 1 or changes between those drafts and the executed version of this Amendment No. 1 shall be introduced as evidence in any litigation or other dispute resolution proceeding by any party or other person, and no court or other body should consider such drafts in interpreting this Amendment No. 1.
5. **Miscellaneous.** This Amendment No. 1 shall bind, and shall inure to the benefit of, the successors and assigns of the parties hereto. This Amendment No. 1 is made for the purpose of setting forth certain rights and obligations of Tenant and the Airport, and no other person shall have any rights hereunder or by reason hereof as a third party beneficiary of otherwise.

Each party hereto shall execute, acknowledge and deliver to each other party all documents, and shall take all actions, reasonably requested by such other party from time to time to confirm or effect the matters set forth herein, or otherwise to carry out the purposes of this Amendment No. 1. This Amendment No. 1 may be executed in counterparts with the same force and effect as if the parties had executed one instrument, and each such counterpart shall constitute an original hereof. No provision of this Amendment No. 1 that is held to be inoperative, unenforceable or invalid shall affect the remaining provisions, and to this end all provisions hereof are hereby declared to be severable. Time is of the essence of this Amendment No. 1. This Amendment No. 1 shall be governed by the laws of the State of California. Neither this Amendment No. 1 nor any of the terms hereof may be amended or modified except by a written instrument signed by all the parties hereto.

6. **Full Force and Effect.** Except as specifically amended herein, the terms and conditions of the Lease shall remain in full force and effect.

///

///

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

TENANT: Pacific Gateway Concessions, LLC,
a limited liability company

By: _____

Name: _____
(type or print)

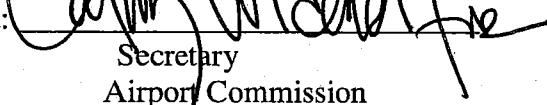
Title: _____

CITY: CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation,
acting by and through its Airport Commission

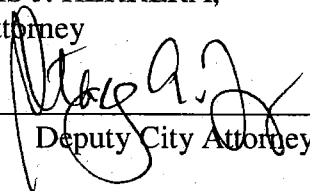
John L. Martin
Airport Director

AUTHORIZED BY AIRPORT
COMMISSION

Resolution No. 11-0153
Adopted: June 30, 2011

Attest: 
Secretary
Airport Commission

APPROVED AS TO FORM:
DENNIS J. HERRERA,
City Attorney

By: 
Deputy City Attorney

2011.07.21
X:\TENANTS\Pacific Gateway Concess\Agreements\Working Docs\PGC L04-0165 Amend 1.doc

LEASE AGREEMENT
FOR

TERMINAL 3 NEWSSTANDS,
A DISADVANTAGED BUSINESS ENTERPRISE SET-ASIDE
AT SAN FRANCISCO INTERNATIONAL AIRPORT

by and between
Soto & Sanchez Investments, Inc.,
as tenant
and

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

Mayor Gavin Newsom
AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Michael S. Strunsky, Vice President
Hon. Linda S. Crayton
Hon. Caryll Ito
Hon. Eleanor Johns
John L. Martin
Airport Director
August 17, 2004
Lease No. 04-0165

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** Complete copy of document is
located in

File No. 110986

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: Pacific Gateway Concessions, LLC (company comprised of Soto & Sanchez and Delave, Inc.)	
<i>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.</i>	
Patricia Lee, President, Soto & Sanchez Debbie Seanez, Vice President, Soto & Sanchez Manuel Soto, CFO, Soto & Sanchez Frank de la Cruz, Delave, Inc. Managing Member Javier Vega, Founder, Delave, Inc.	
Contractor address: 13701 Cimarron Avenue, Gardena, CA 90249-2463	
Date that contract was approved:	Amount of contract: MAG was \$550,000; now on percentage rent
Describe the nature of the contract that was approved: operation of books and news stores in Boarding Areas "B" and "C"	
Comments: Awarded through a Request for Proposal process Percentage rent calculated at 12% up to \$500,000 + 14% up to \$1M + 16% over \$1M	

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: 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: 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

