

File No. 101460

Committee Item No. 6
Board Item No. 31

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: December 8, 2010

Board of Supervisors Meeting

Date 12/14/10

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution |
| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input checked="" type="checkbox"/> | <input checked="" 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 checked="" type="checkbox"/> | Contract/Agreement * |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |
| <input type="checkbox"/> | <input type="checkbox"/> | Public Correspondence |

OTHER

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Completed by: Victor Young
Completed by: Victor Young

Date: December 3, 2010
Date: 12-9-10

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

22

1 [Airport Concession Lease - Melshire DFW, L.P.]

2
3 **Resolution approving the Terminal 2 Specialty Store Lease between Melshire DFW, L.P.**
4 **dba Natalie's Candy Jar, and the City and County of San Francisco, acting by and**
5 **through its Airport Commission.**

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

9 WHEREAS, Melshire DFW, L.P. dba Natalie's Candy Jar was the highest, responsive,
10 and responsible proposer; and,

11 WHEREAS, The Airport Commission approved Resolution No. 10-0313, adopted
12 October 26, 2010, awarding the Terminal 2 Specialty Store Lease to Melshire DFW, L.P. dba
13 Natalie's Candy Jar now, therefore, be it

14 RESOLVED, That the Board of Supervisors hereby approves the Terminal 2 Specialty
15 Store Lease, copies of which are contained in Board of Supervisors' File No. 101460.

Item 6
File 10-1460

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the Airport to enter into a seven-year lease agreement, effective April 15, 2011 through April 14, 2018, with Melshire DFW, LP, operating as Natalie's Candy Jar, for the use of 928 square feet of Terminal 2 retail space.

Key Points

- On April 27, 2010, the Board of Supervisors approved a resolution for the Airport to enter into a lease agreement for Charles Chocolates, Inc. to operate a 928 square foot retail store in the Airport's new Terminal 2 (File 10-0315). However, Charles Chocolates subsequently did not obtain the needed financing for the subject lease. Therefore, the Airport rescinded the lease agreement with Charles Chocolates on June 15, 2010.
- As a result, the Airport reissued a Request for Proposals (RFP) in July 2010 and based on the results of the RFP process, the Airport is recommending the award of a new lease for 928 square feet of retail space in the Airport's new Terminal 2 for seven years, from April 15, 2011 through April 14, 2018, with Melshire DFW, FP, operating as Natalie's Candy Jar. The Airport's new domestic Terminal 2 is scheduled to open on April 15, 2011.

Fiscal Impacts

- Under the proposed lease, Melshire DFW would pay the Airport an annual rent of the greater of either (a) its percentage of gross revenues sales, or (b) the Minimum Annual Guarantee (MAG) of \$141,000. The estimated rent for the first year payable to the Airport under the proposed lease would be \$230,000, based on a percentage of gross revenue.
- In addition to the annual rent, under the proposed lease, Melshire DFW is required to pay the Airport an annual Promotional Program Fee of \$928.
- Therefore, the estimated rent and fees payable to the Airport for the first year of the proposed lease are \$230,928 (\$230,000 in rent plus \$928 in fees).
- Additionally, Melshire DFW is required to make a one-time Minimum Investment Amount of \$324,800.

Recommendation

- Approve the proposed resolution.

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.

Background

Since 1954, Terminal 2 in the San Francisco International Airport (Airport) operated as the International Terminal. In the fall of 2000, due to an increase in both domestic and international passenger traffic, the Airport constructed a new International Terminal and, closed Terminal 2, which is being renovated into a new Domestic Terminal. Renovations of Terminal 2 began in September 2008 and are anticipated to be completed and open for domestic passengers on April 15, 2011. Once completed, Terminal 2 will have approximately 17,707 square feet of food and beverage concessions and 11,504 square feet of retail concessions.

On April 27, 2010, the Board of Supervisors approved a resolution authorizing the Airport to enter into a lease agreement with Charles Chocolates, Inc. for Charles Chocolates to operate a 928 square foot retail store in the Airport's new Terminal 2 (File 10-0315). However, Ms. Nanette Hendrickson, Principal Property Manager at the Airport states that because Charles Chocolates subsequently did not obtain the needed financing, the Airport rescinded the lease agreement with Charles Chocolates on June 15, 2010.

As a result, the Airport reissued a Request for Proposals (RFP) in July 2010 for the 928 square feet of retail space in Terminal 2, and received three proposals on September 30, 2010. The scores of the three proposers are shown in Table 1 below based on each proposers' (a) concept (30 points), (b) design intention and capital investment (20 points), (c) business plan (20 points), (d) customer service and quality control (20 points), and (e) Minimum Annual Guarantee (10 points).

| Table 1: Terminal 2 Specialty Store Request for Proposal Scoring | | |
|---|-----------------------|---------------------------------|
| | Proposal Score | Minimum Annual Guarantee |
| Melshire DFW, LP as Natalie's Candy Jar | 88.80 | \$ 141,000 |
| RDG Concessions, LLC as Facetime | 80.10 | \$ 135,000 |
| Skyline Concessions, Inc. as The Candy Bar | 79.53 | \$ 140,000 |

The Airport convened a three-member panel, comprised of Airport staff and airline professionals, that evaluated the qualifying proposals and determined Melshire DFW to be the highest ranking proposer, with a total of 88.80 points out of a maximum of 100 points, as shown in Table 1 above. Therefore, on October 26, 2010, the Airport entered into a lease agreement with Melshire DFW to operate Natalie's Candy Jar in Terminal 2 for a term of seven years,

from April 15, 2011 through April 14, 2018¹. As shown in Table 1 above, the Minimum Annual Guarantee is \$141,000 for the first year of the lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Airport to enter into a lease agreement for seven years, from April 15, 2011 through April 14, 2018, with Melshire DFW, LP, operating as Natalie's Candy Jar, for the use of 928 square feet of Terminal 2 retail space.

Lease Period: The proposed lease would extend for a term of seven years, from April 15, 2011 through April 14, 2018.

Annual Rent: The proposed lessee, Melshire DFW, would pay the Airport an annual rent of either the greater of (a) a percentage of gross sales, as specified in Table 2 below, or (b) the Minimum Annual Guarantee (MAG). The Minimum Annual Guarantee is set at \$141,000 per year and is subject to an annual Consumer Price Index (CPI)² adjustment, beginning on January 1, 2013. If the CPI decreases, the MAG will not decrease to a value less than the previous year's MAG.

**Table 2: Annual Rent for
Melshire DFW, LP as Natalie's Candy Jar**

| MAG | | Percentage of Gross Revenues |
|-----------|----|---|
| \$141,000 | OR | <ul style="list-style-type: none"> • 12% up to & including \$500,000, plus • 14% over \$500,000 up to & including \$1,000,000, plus • 16% over \$1,000,000 |

As stated above, the bidders submitted a MAG as part of their competitive proposal. According to Ms. Hendrickson, the percentage of gross revenues was specified by the Airport in the RFP, based on expected sales volume, calculated by using expected enplanements³ and average sales data, a comparison to existing leases of other locations in the Airport for similar businesses and a comparison with other rental rates at the Airport.

In addition to the annual rent under the proposed lease, the lessee, Melshire DFW, is required to pay an annual Promotional Program Fee and a one-time Minimum Investment Amount, as described below.

Promotional Program Fee: The Promotional Program Fee allows the Airport to recover a portion of the costs to advertise and promote the retail stores in the Airport's Terminals. Under the

¹ Ms. Hendrickson states that the proposed lease would actually be effective on January 1, 2011, in order to enable Melshire DFW sufficient time to undertake renovations of the retail space so that the store would be ready by April 15, 2011 for retail operations. The Rent Commencement Date, which is expected to be April 15, 2011, is the date the facility would be fully operational.

² The Consumer Price Index represents changes in the prices of all good and services for All Urban Consumers in the San Francisco-Oakland-San Jose area and is published by the Bureau of Labor Statistics under the United States Department of Labor.

³ Enplanements are defined as the number of passengers boarding airplanes at the Airport.

proposed lease, Melshire DFW is required to pay an annual \$1.00 per square foot Promotional Program Fee, or \$928 per year for 928 square feet. The Promotional Program Fee is subject to an annual CPI adjustment. If the CPI decreases, the Fee will not decrease to a value less than the previous year's Fee.

Minimum Investment Amount: The proposed lease also requires Melshire DFW to make tenant improvements in order to refurbish, redecorate, and modernize the interiors and exteriors of its retail space, at no cost to the Airport. Under the proposed lease, the one-time Minimum Investment Amount for such tenant improvements is \$324,800, based on 928 square feet, or a cost of \$350 per square foot.

FISCAL IMPACTS

As noted above, the MAG during the first year of the proposed lease would be \$141,000, plus \$928 in required annual Program Promotion Fees, or a total minimum annual payment of \$141,928 by Melshire DFW to the Airport. However, according to Ms. Hendrickson, based on projected annual sales of \$1,625,000 for Melshire DFW during FY 2011-2012, the Airport expects Melshire DFW to pay the annual percentage rent (which is greater than the MAG of \$141,000) during the first year of the lease, or a total annual rent of \$230,000, as shown in Table 3 below. This total projected rent in the first year, excluding fees, of \$230,000 exceeds the MAG of \$141,000 by \$89,000.

| Table 3: Projected First Year Annual Rent of Natalie's Candy Jar | | | | | | | |
|--|--------------------------|-----------------|---------------------------------|------------------------------------|---------------------------------|-----------|--|
| | Minimum Annual Guarantee | Projected Sales | Projected Percentage Sales Rent | | | | Total Estimated Annual Rent Payable to the Airport |
| | | | 12% up to \$500,000 | 14% of \$500,000.01 to \$1,000,000 | 16% of \$1,000,000.01 and above | Total | |
| Melshire DFW, LP as Natalie's Candy Jar | \$141,000 | \$1,625,000 | \$ 60,000 | \$ 70,000 | \$ 100,000 | \$230,000 | \$ 230,000 |

Given that the Airport would also receive \$928 in annual Program Promotion Fees, the Airport anticipates receiving total annual revenue of \$230,928 in the first year from the proposed lease.

RECOMMENDATION

Approve the proposed resolution.

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): Mayor Gavin Newsom Members, SF Board of Supervisors | City elective office(s) held: Mayor, City and County of San Francisco; Members, SF Board of Supervisors |
| Contractor Information (Please print clearly.) | |
| Name of contractor: Melshire DFW, L.P. d/b/a Natalie's Candy Jar, a DBE certified (Texas) company | |
| 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 or controlled by the contractor. Use additional pages as necessary. | |
| Limited Partnership: Cielo M. Taub, Managing Partner Mark J. Taub, Partner Melshire DFW I, LLC | |
| Contractor address: 12655 North Central Expressway, Suite 325, Dallas, TX 75243 | |
| Date that contract was approved: Airport Commission approved on 10/26/2010; subject to Board of Supervisors' approval | Amount of contract: Minimum Annual Guarantee of \$141,000 for the first lease year, subject to adjustments upwards |
| Describe the nature of the contract that was approved: Lease was awarded through a Request for Proposal process | |
| Comments: Lease term is seven (7) years without option. Staff anticipates contract amount to reach or exceed \$1 million during life of the Lease. | |

This contract was approved by (check applicable):

☐ the City elective officer(s) identified on this form (Mayor, Gavin Newsom)

☒ a board on which the City elective officer(s) serves 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: Angela Calvillo, Clerk of the Board of Supervisors | Contact telephone number: (415) 554-5184 |
| Address: 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102-4689 | E-mail: Board.of.Supervisors@sfgov.org |

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

Date Signed

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

Date Signed



San Francisco International Airport

November 5, 2010

File 101460

RECEIVED
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SAN FRANCISCO
BY P.O. Box 8097
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Ms. Angela Calvillo
Clerk of the Board
Board of Supervisors
City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

GAVIN NEWSOM
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS
RICHARD J. GUGGENHIME

JOHN L. MARTIN
AIRPORT DIRECTOR

Subject: Approval of the Terminal 2 Specialty Store Lease
No. 10- 10-0313, between Melshire DFW, L.P. d/b/a Natalie's Candy
Jar 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 2 Specialty Store Lease No. 10-0313,
between Melshire DFW, L.P. d/b/a Natalie's Candy Jar, and the City and
County of San Francisco, acting by and through its Airport Commission. The
Airport Commission approved the award of the Terminal 2 Specialty Store
Lease to Melshire DFW, L.P. d/b/a Natalie's Candy Jar.

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

- Board of Supervisors Resolution;
- SF-126 Ethics Form;
- Approved Airport Commission Resolution No. 10-0313;
- Copy of Terminal 2 Specialty Store Lease No. 10-0313.

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

Very truly yours,

Jean Caramatti

Jean Caramatti
Commission Secretary

Enclosures

cc: Cheryl Nashir

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 10-0313

**AWARD OF THE TERMINAL 2 SPECIALTY STORE LEASE TO MELSHIRE DFW,
L.P. D/B/A NATALIE'S CANDY JAR, FOR A MINIMUM ANNUAL GUARANTEE OF
\$141,000 FOR THE FIRST YEAR OF THE LEASE**

WHEREAS, by Resolution No. 10-0221, adopted June 15, 2010, the Airport Commission ("Commission") authorized staff to conduct an informational conference for the Terminal 2 Specialty Store Lease; and

WHEREAS, by Resolution No. 10-0291, adopted September 7, 2010, the Commission authorized staff to accept proposals; and

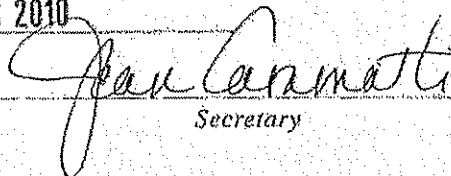
WHEREAS, on September 30, 2010, staff received three (3) proposals from the following companies:

- Melshire DFW, L.P. d/b/a Natalie's Candy Jar;
- RDG Concessions, LLC;
- Skyline Concessions, Inc; and

WHEREAS, a three-member panel reviewed the qualifying proposals and determined Melshire DFW, L.P. d/b/a Natalie's Candy Jar to be the highest ranked responsive, and responsible proposer; now, therefore, be it

RESOLVED, that this Commission hereby awards the Terminal 2 Specialty Store Lease to Melshire DFW, L.P. d/b/a Natalie's Candy Jar 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 \$141,000 for the first year of the lease or tiered percentage rent, whichever is greater.

I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of OCT 26 2010


Secretary

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): Mayor Gavin Newsom Members, SF Board of Supervisors | City elective office(s) held: Mayor, City and County of San Francisco; Members, SF Board of Supervisors |

| | |
|--|---|
| Contractor Information (Please print clearly.) | |
| Name of contractor: Melshire DFW, L.P. d/b/a Natalie's Candy Jar, a DBE certified (Texas) company | |
| <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 or controlled by the contractor. Use additional pages as necessary.</i> | |
| Limited Partnership: Cielo M. Taub, Managing Partner Mark J. Taub, Partner Melshire DFW I, LLC | |
| Contractor address: 12655 North Central Expressway, Suite 325, Dallas, TX 75243 | |
| Date that contract was approved: Airport Commission approved on 10/26/2010; subject to Board of Supervisors' approval | Amount of contract: Minimum Annual Guarantee of \$141,000 for the first lease year, subject to adjustments upwards |
| Describe the nature of the contract that was approved: Lease was awarded through a Request for Proposal process | |
| Comments: Lease term is seven (7) years without option. Staff anticipates contract amount to reach or exceed \$1 million during life of the Lease. | |

This contract was approved by (check applicable):

- ☐ the City elective officer(s) identified on this form (Mayor, Gavin Newsom)
- ☒ a board on which the City elective officer(s) serves 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: Angela Calvillo, Clerk of the Board of Supervisors | Contact telephone number: (415) 554-5184 |
| Address: 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102-4689 | E-mail: Board.of.Supervisors@sfgov.org |

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

Date Signed

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

Date Signed

LEASE AGREEMENT
FOR THE
TERMINAL 2 SPECIALTY STORE
AT SAN FRANCISCO INTERNATIONAL AIRPORT

by and between

MELSHIRE DFW, L.P. D/B/A NATALIE'S CANDY JAR
as tenant

and

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

Gavin Newsom
Mayor

AIRPORT COMMISSION

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

John L. Martin
Airport Director

October 26, 2010

Lease No. 10-0313

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