

**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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March 28, 2013

**TO:** Budget and Finance Sub-Committee  
**FROM:** Budget and Legislative Analyst  
**SUBJECT:** April 3, 2013 Budget and Finance Sub-Committee Meeting

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<b>Item 1</b> <b>File 13-0085</b>	<b>Departments:</b> City Administrator's Office Real Estate Division
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would amend the City's Administrative Code by adding Section 10.100-289 to (a) establish the San Francisco City Hall Preservation Fund ("City Hall Preservation Fund") as a Category 8 Fund, (b) authorize the City Administrator's Office to accept and expend all donations of money, property, and personal services to be deposited to the City Hall Preservation Fund, and (c) require the City Administrator to provide an annual report on February 1<sup>st</sup> of each year until February 1, 2016, that lists the amounts, types, and sources of donations made in the prior calendar year to the City Hall Preservation Fund.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would establish the City Hall Preservation Fund as a Category 8 Fund. As defined by City Administrative Code Section 10.100-1, Category 8 Funds allow individual City departments to (a) automatically appropriate expenditures consistent with the purpose of the fund, (b) accumulate interest provided that the balance in the fund exceeds \$50,000, and (c) carry forward any unexpended and unencumbered balance at the end of the fiscal year into the upcoming fiscal year.</li> <li>• The Centennial Celebration of San Francisco City Hall will be a series of exhibits, events, and building improvements taking place over a 33-month period that starts in April 2013 and ends in December 2015.</li> <li>• Under the proposed ordinance, the City Hall Preservation Fund would be used to promote the Centennial Anniversary of San Francisco City Hall and would include related promotional events, community outreach activities, preservation, maintenance, repair, improvements, and post-anniversary endeavors. All funds in the City Hall Preservation Fund would be private donations of money, property and personal services.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• According to Mr. Bill Barnes, Project Manager in the City Administrator's Office, the City's Real Estate Division's City Hall Building Management will administer the City Hall Preservation Fund within existing budgeted resources. Mr. Barnes anticipates a fundraising goal of between \$1,000,000 and \$3,000,000 for City Hall's Centennial; the costs of the Centennial celebration will be tied to the level of private contributions raised.</li> </ul> <p style="text-align: center;"><b>Policy Considerations</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance waives the requirement of Board of Supervisors approval by resolution for the acceptance or expenditure of any gift of cash or goods of a market value greater than \$10,000. In order to ensure adequate oversight of the City Hall Preservation Fund, the Budget and Legislative Analyst recommends amending the proposed ordinance to require Board of Supervisors approval by resolution of the acceptance and expenditure of gifts exceeding \$100,000, consistent with the Administrative Code provision that requires Board of Supervisors approval to accept and expend grants exceeding \$100,000.</li> </ul>	

- The proposed ordinance requires the City Administrator to provide an annual report to the Board of Supervisors on February 1st of each year until February 1, 2016, that lists the amounts, types, and sources of donations made in the prior calendar year to the City Hall Preservation Fund. In order to ensure adequate oversight of the City Hall Preservation Fund, the Budget and Legislative Analyst recommends amending the proposed ordinance to require the February 1 annual report include expenditure reporting.
- Under the proposed ordinance, the proposed City Hall Preservation Fund does not have expiration or a sunset date. Because the City Hall Preservation Fund does not serve a purpose after the end of the City Hall Centennial in 2015, the Budget and Legislative Analyst recommends amending the proposed ordinance to require a sunset date of no later than June 30, 2016 at the close of the fiscal year.

#### **Recommendations**

- Amend the proposed ordinance to (a) require Board of Supervisors approval by resolution to accept and expend gifts exceeding \$100,000, (b) include expenditure reporting in the February 1<sup>st</sup> annual report to the Board of Supervisors, and (c) include a sunset date of June 30, 2016.
- Approve the proposed ordinance, as amended.

## **MANDATE STATEMENT / BACKGROUND**

### **Mandate Statement**

Charter Section 2.105 provides that all legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

In accordance with San Francisco Administrative Code Section 10.100-305(a), the Board of Supervisors may authorize the creation of gift funds as Category 8 funds, which allow for automatic appropriation of funds without further Board of Supervisors approval. Gift funds are created for the purpose of accepting gifts of cash or goods which may from time to time be offered to the City and County of San Francisco through any department, board or commission, for the benefit of the designated department, board or commission and for the purposes as specified by the donors.

In accordance with Administrative Code Section 10.100-1, Category 8 funds are (a) automatically appropriated for expenditures consistent with the purpose of the fund, (b) accumulate interest provided that the balance in the fund exceeds \$50,000, and (c) any unexpended and unencumbered balance at the end of the fiscal year is carried forward in the fund to the following fiscal year.

### **Background**

Following the 1906 San Francisco earthquake, rebuilding of City Hall commenced in 1913 and City Hall was occupied on December 28, 1915. The City plans to celebrate the centennial of the rebuilt City Hall throughout 2015. According to Mr. Kenneth Bukowski, Deputy City Administrator, the City Hall Centennial Celebration will be a series of exhibits, events, and building improvements taking place over a 33-month period that starts in April 2013 and ends in December 2015.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Administrative Code by adding Section 10.100-289 to (a) establish the San Francisco City Hall Preservation Fund ("City Hall Preservation Fund") as a Category 8 Fund, (b) authorize the City Administrator's Office to accept and expend all gifts, including donations of money, property, and personal services to be deposited to the City Hall Preservation Fund, and (c) require the City Administrator to provide an annual report to the Board of Supervisors on February 1st of each year until February 1, 2016, that lists the amounts, types, and sources of donations made in the prior calendar year to the City Hall Preservation Fund.

As stated above and defined by Section 10.100-1 of the City's Administrative Code, Category 8 Funds allow individual City departments to (a) automatically appropriate funds deposited into the Category 8 Fund for expenditures consistent with the specified purposes and uses, (b) accumulate interest provided that the balance in the fund exceeds \$50,000, and (c) carry forward any unexpended and unencumbered balance remaining at the end of the fiscal year into the upcoming fiscal year.

To celebrate the 100<sup>th</sup> anniversary of the re-opening of City Hall in 1915 following the destruction of the City Hall building in the 1906 earthquake, the proposed ordinance would establish the City Hall Preservation Fund. City Hall Preservation Fund monies would be used to promote the Centennial Anniversary of San Francisco City Hall in 2015 and would include related promotional events, community outreach activities, preservation, maintenance, repair, improvements, and post-anniversary endeavors. According to Mr. Bill Barnes, City Administrator's Office Project Manager, all funds in the City Hall Preservation Fund would be private donations of money, property and personal services.

### **City Hall Centennial Celebration Promotional Events**

According to Mr. Barnes, examples of expected promotional event and community outreach activities may include both fundraising and no-cost events for the public to attend, such as the following:

- Increased school group visits and tours of City Hall;
- Partnerships with existing historical societies in San Francisco to present topics of particular concern (e.g. architectural, social or other historic aspects of City Hall);
- Centennial activities linked to cultural celebrations (e.g. Women's History Month, LGBT Pride, or Lunar New Year);
- Historical lectures in the City Hall light courts; and
- Civic Center events in conjunction with the Civic Center Community Benefit District and the Recreation and Park Department.

### City Hall Repairs and Renovations Previously Appropriated by the Board of Supervisors

The City's Capital Plan, as previously approved by the Board of Supervisors, contains City Hall repairs and renovations in FY 2012-13 and FY 2013-14, totaling \$2,935,000 as shown in Table 1 below. The Department of Administrative Services FY 2012-13 and FY 2013-14 budgets include \$2,935,000 in General Fund monies to pay for these repairs and renovations.

**Table 1. City Hall Capital Projects in the City's Current Capital Plan,  
As Approved by the Board of Supervisors**

Project	FY 2012-13	FY 2013-14	Total
City Hall Dome Railing Repair and Restoration	\$150,000	\$0	\$150,000
City Hall Window Stabilization Phase 2	0	1,600,000	1,600,000
City Hall Emergency Power Capabilities	225,000	960,000	1,185,000
<b>Total</b>	<b>\$375,000</b>	<b>\$2,560,000</b>	<b>\$2,935,000</b>

### Historic Preservation Commission Approval

On March 6, 2013, the Historic Preservation Commission heard this item as an informational item and instructed the Planning Department to draft a letter of support regarding the creation of this Category 8 Fund to the Clerk of the Board of Supervisors. The letter was submitted to the Clerk of the Board of Supervisors on March 22, 2013.

### FISCAL IMPACT

According to Mr. Barnes, the City's Real Estate Division's City Hall Building Management will administer the City Hall Preservation Fund within existing budgeted resources, such that additional staff or funds will not be needed to create the proposed City Hall Preservation Fund.

Mr. Barnes states that a fundraising goal will be set by the yet-to-be-named Centennial Chair<sup>1</sup>, but anticipates the fundraising to contribute between \$1,000,000 and \$3,000,000 for City Hall's Centennial. According to Mr. Barnes, the City's costs of the Centennial celebration will be directly tied to the level of private contributions raised, such that any City costs are expected to be minimal and will be absorbed within the existing City Administrator's Office budget.

### Unfunded City Hall Repairs and Renovations

According to Mr. Robert Reiter, City Hall Building Manager, City Hall was last renovated 15 years ago and most of the renovations, including interior and exterior paint and carpets have outlived their life span or will do so within the next five years. Table 2 below identifies \$1,850,000 in unfunded capital projects that would be expected to be funded from the proposed City Hall Preservation Fund, which as noted above is expected to rise between \$1,000,000 and \$3,000,000.

**Table 2. City Hall Unfunded Capital Projects**

<sup>1</sup> The Centennial Chair will be recruited, selected and announced by the City Administrator. There is no compensation or formal appointment/employment as an officer or employee of the City.

Project	Estimated Costs
Carpet replacements	\$150,000
Plumbing replacements <sup>1</sup>	1,200,000
LED lighting system for the exterior <sup>2</sup>	500,000
Total	<b>\$1,850,000</b>

1. Forty percent of the building still operates on the original plumbing from 1915.
2. Estimated cost, the scope of this project is under review and analysis.

Although a full assessment of capital needs has not been completed, according to Mr. Reiter, in addition to the projects identified above in Table 2, the initial planned preservation, maintenance, repair, and improvement actions may include the following depending on available funds:

- Repainting the Dome,
- Repairing Dome leaks,
- Interior painting of common areas,
- Interior painting of the Treasurer's Office,
- Floor repairs (cracks in the marble),
- Exterior Column cleaning (water stains), and
- Roof repairs.

After the completion of any Centennial-related events, the remaining funds may be used for preservation, maintenance, repair, and improvements to City Hall, as well as for related City Hall promotional events.<sup>2</sup>

## POLICY CONSIDERATIONS

### Notification to the Board of Supervisor of Donations and Expenditures Greater than \$100,000

San Francisco Administrative Code Section 10.100-305(b) requires Board of Supervisors approval by resolution for the acceptance or expenditure of any gift of cash or goods of a market value greater than \$10,000. The proposed ordinance waives this requirement, allowing the department to accept and expend gifts into this fund without requiring the Board of Supervisors to approve by resolution the acceptance and expenditure of specific gifts. In order to ensure adequate oversight of the City Hall Preservation Fund, the Budget and Legislative Analyst recommends amending the proposed ordinance to require Board of Supervisors approval by resolution of the acceptance and expenditure of gifts exceeding \$100,000, consistent with the Administrative Code provision that requires Board of Supervisors approval to accept and expend grants exceeding \$100,000.

### Annual Reporting to the Board of Supervisors

<sup>2</sup> Under Administrative Code Section 10.100-1(d), the Controller is authorized to close such funds and return the remaining balance to the General Fund if no expenditures are made from Administrative Code Special Funds in two years.

The proposed ordinance requires the City Administrator to provide an annual report to the Board of Supervisors on February 1st of each year until February 1, 2016, that lists the amounts, types, and sources of donations made in the prior calendar year to the City Hall Preservation Fund. However, the proposed ordinance does not include the reporting of the City Hall Preservation Fund's expenditures. In order to ensure adequate oversight of the City Hall Preservation Fund, the Budget and Legislative Analyst recommends amending the proposed ordinance to require the February 1 annual report include expenditure reporting.

### **City Hall Preservation Fund Sunset Date**

Under the proposed ordinance, the proposed City Hall Preservation Fund does not have expiration or a sunset date. Administrative Code Section 10.100-1(c) of the City's Administrative Code allows for any unexpended and unencumbered balance at the end of the fiscal year to be carried forward to the following fiscal year, and according to Ms. Monique Zmuda, Deputy Controller, any remaining City Hall Preservation Fund balance could only be used for the Fund's specified purpose. According to Administrative Code Section 10.1000-1(d), if no expenditures are made for two years, the Controller is authorized to close such funds and return the remaining balance to the General Fund. Because the City Hall Preservation Fund does not serve a purpose after the end of the City Hall Centennial in 2015, the Budget and Legislative Analyst recommends amending the proposed ordinance to require a sunset date of no later than June 30, 2016 at the close of the fiscal year.

## **RECOMMENDATIONS**

1. Amend the proposed ordinance to (a) require Board of Supervisors approval by resolution to accept and expend gifts exceeding \$100,000, (b) include expenditure reporting in the February 1<sup>st</sup> annual report to the Board of Supervisors, and (c) include a sunset date of June 30, 2016.
2. Approve the proposed ordinance, as amended.

**Item 5**  
**File 12-1192**

**Department:**  
San Francisco International Airport (Airport)

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would approve a new ten-year lease between the Airport and Host International LLC (Host) for: (a) one newsstand in International Terminal A (space I.3.123), (b) one newsstand in International Terminal G (space I.3.082), (c) one combined news/books/convenience/café option in International Terminal G (space I.3079), and (d) one newsstand in Terminal 3 (space T3.2.015), all totaling 5,617 square feet plus an optional 400 square feet for seating at space I.3079. The proposed lease does not include any options to renew.

### Key Points

- In October 2011, the Airport issued a competitive Request for Proposals (RFP) for the proposed lease, and the Airport awarded the lease to Host as the highest ranking, responsive, and responsible proposer. Currently, three of the four spaces in the proposed lease are operational. Mr. John Reeb, Senior Property Manager for Retail at San Francisco International Airport, noted that Terminal 3 construction will be completed in January 2014. The Airport hopes to make the final space available to Host for renovations in September 2013 so that the retail location can open for business in January 2014, along with the opening of the completed Terminal 3.
- Given the projected January 2014 opening of Terminal 3 along with the final Host location, the ten-year lease is estimated to commence in January 2014 and terminate approximately in January 2024.

### Fiscal Impact

- Under the proposed new ten-year lease between the Airport and Host, the combined rent for the three spaces would be the higher of (a) the Minimum Annual Guarantee (MAG), as determined competitively at \$733,176 per year, or (b) percentage rent, as set by the Airport. The MAG would be adjusted annually based on the standard Consumer Price Index (CPI) formula used by the Airport.
- Host's projected combined annual gross revenues in the first full year of the proposed lease from the four spaces are estimated to be \$5,280,000. This would result in percentage rent being paid by Host to the Airport of \$814,800 in the first full year of the proposed lease, which exceeds the MAG of \$733,176 by \$81,624.
- Because ongoing construction in Terminal 3 has prevented the opening of one of the four retail locations, Host will only be required to pay the greater of a prorated MAG or percentage rent for the three open and operating locations until all lease locations are open, which is expected to be in January 2014.

### 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

In October 2011, the Airport issued a Request for Proposals (RFP) for the proposed lease of three newsstands and one combined news/books/convenience/café option in the International Terminal and Terminal 3, totaling 5,617 square feet, with an optional additional 400 square feet for seating, as shown in Table 1 below.

**Table 1: Details of Proposed Premises**

Space	Location	Previous Tenant	Square Footage	Optional Square Footage
I.3.123	International Terminal A, pre-security	Paradies Shops	2,353	2,353
I.3.082	International Terminal G, pre-security	Paradies Shops	1,360	1,360
I.3079A	International Terminal G, post-security	Hudson Group	1,435	1,835*
T3.2.015	Terminal 3, post-security, Gate 68	Pacific Gateway Concessions	469	469
<b>Total</b>			<b>5,617</b>	<b>6,017</b>

\*With optional 400 square feet of seating in space I.3079A.

According to Mr. John Reeb, Senior Property Manager for Retail at San Francisco International Airport, four companies responded to the RFP. The Airport selected Host International, LLC (Host) as the highest ranking, responsive, and responsible proposer to provide the three retail newsstands and a retail news/books/convenience/café at the four locations, based on criteria that included: (a) the proposed concept and site visit, (b) design intent and capital investment, (c) the business plan, (d) customer service and quality control, and (e) the proposed Minimum Annual Guarantee (MAG) amount, as shown in Table 2 below. The RFP required a minimum MAG proposal of \$450,000. The four MAG amounts were: (1) \$733,176 (Host); (2) \$700,000 (Marshall Retail); (3) \$635,000 (Hudson Group); and (4) \$470,111 (Pacific Gateway Concessions (PGC)). The MAG of a given premises is to be adjusted annually by the Airport based on the Consumer Price Index.

**Table 2: RFP Results for Proposed Lease Agreement**

Criteria	Possible Points	Proposers			
		Host	Hudson Group	Marshall Retail	Pacific Gateway Concessions
Proposed Concept & Site Visit	30	22.75	21.65	18.7	22.05
Design Intent & Capital Investments	20	15.2	14.05	14.5	14.45
Business Plan	20	16.2	15.75	15	15.75
Customer Service & Quality Control	20	15.65	15.7	13.15	15.55
MAG/Proposal Amount	<u>10</u>	<u>10</u>	<u>8.66</u>	<u>9.55</u>	<u>6.41</u>
<b>Total</b>	<b>100</b>	<b>79.8</b>	<b>75.81</b>	<b>70.9</b>	<b>74.21</b>

The Airport Commission approved the award of the proposed lease to Host in April 2012. As explained by Mr. Reeb, continuing construction in Terminal 3 performed by the Airport has led to delays in the award of the proposed lease.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new ten-year lease between the Airport and Host for: (a) one newsstand in International Terminal A (space I.3.123), (b) one newsstand in International Terminal G (space I.3.082), (c) one combined news/books/convenience/café option in International Terminal G (space I.3079A), and (d) one newsstand in Terminal 3 (space T3.2.015), all totaling 5,617 square feet plus the optional 400 square feet for seating at space I.3079A. The proposed lease does not include any options to renew.

The lease term is for ten years from the full rent commencement date, subsequent to the completion of tenant improvements of the four retail locations. According to Mr. Reeb, construction in Terminal 3 has expanded beyond the original scope and impacted one of the four retail locations to be occupied by Host under the proposed lease. Because tenant improvements to the Terminal 3 retail location will not be completed until January 2014, as shown in Table 3 below, the expected lease commencement date is January 2014 and termination date is approximately January 2024.

**Table 3: Occupancy and Operational Dates for Proposed Lease**

Space	Location	Date occupied by Host for tenant improvements	Actual or projected rent commencement date	Expected lease commencement date	Expected lease termination date
I.3.123	International Terminal A, pre-security	Sept 10, 2012	Dec 24, 2012	Jan 2014	Jan 2024
I.3.082	International Terminal G, pre-security	Sept 10, 2012	Dec 10, 2012	Jan 2014	Jan 2024
I.3079A	International Terminal G, post-security	Sept 17, 2012	Feb 1, 2013	Jan 2014	Jan 2024
T3.2.015	Terminal 3, post-security, Gate 68	Expected Sept 2013	Expected Jan 2014	Jan 2014	Jan 2024

As noted in Table 3 above, of the four spaces in the proposed lease, two have been operational since December 2012 and one has been operational since February 2013. Mr. Reeb noted that Terminal 3 construction will be completed in January 2014. The Airport anticipates making space T3.2.015 available to Host for renovations in September 2013 so that Host's completion of the renovations will be completed at the same time as the overall Terminal 3 construction is completed. It is anticipated that this retail location will open in January 2014, along with the opening of the completed Terminal. As noted above, the lease commencement date is the date when all four retail locations have completed tenant improvements. Tenant improvements to the retail location in Terminal 3 are expected to be completed in January 2014; and therefore, the lease commencement date is expected to be January 2014.

## FISCAL IMPACT

Under the proposed lease, the rent payable by Host to the Airport is the higher of (a) the Minimum Annual Guarantee (MAG) of \$733,176 per year, or (b) percentage rent, which was set by the Airport, at:

- 12% of gross revenues up to and including \$500,000, plus
- 14 % of gross revenues of \$500,000.01 up to and including \$1,000,000, plus
- 16 % of gross revenues over \$1,000,000.

The MAG is adjusted annually by the Airport based on the Consumer Price Index.

The proposed lease also requires a:

- (a) One-time minimum investment of \$778,400<sup>1</sup> for tenant improvements for renovation of the spaces by Host, including:
  - a. \$150 per square foot for the three retail locations in the International Terminal, totaling \$614,250 for 4,095 square feet<sup>2</sup>, plus
  - b. \$350 per square foot plus for the retail location in Terminal 3, totaling \$164,150 for 469 square feet.
- (b) Promotional Charge of \$1 per square foot per year, or \$5,617 per year for a total of 5,617 square feet of space, excluding the 400 optional square feet for space I.3079A, payable by Host to the Airport to reimburse the Airport for marketing and advertising costs.<sup>3</sup>

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

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<sup>1</sup> In the event Host decides to opt to use the optional 400 square feet of seating associated with space I.3079A, the one-time minimum investment required would increase from \$778,400 by \$60,000 to \$838,400 as Host would be required to make a \$150 per square foot investment in the 400 square-foot seating area.

<sup>2</sup> As shown in Table 1 above, excluding the optional 400 square feet for space I.3079A, the total square feet for spaces I.3079A, I.3.123, I.3.082, and T3.2.015 is 5,617 square feet. However, for space I.3.123, 1,053 square feet of the 2,353 square feet, is currently allocated as storage space and does not count toward the one-time minimum investment amount.

<sup>3</sup> If Host opts to use the 400 square-foot seating space, then the annual Promotional Charge will increase by \$400 to \$6,017.

As shown in Table 4 below, based on information provided by Mr. Reeb, Host's projected annual gross revenues for the first year of the proposed lease are \$5,280,000.

**Table 4: Annual Gross Revenues for Given Premises  
in the First Full Year of the Proposed Lease**

Space	Location	Anticipated Annual Gross Revenue
I.3.123	International Terminal A, pre-security	\$1,375,000
I.3.082	International Terminal G, pre-security	905,000
I.3079A	International Terminal G, post-security	1,850,000
T3.2.015	Terminal 3, post-security, Gate 68	1,150,000
	<b>Total</b>	<b>\$5,280,000</b>

Based on the estimated first year annual gross revenues, Host would pay the Airport percentage rent of \$814,800 in the first full year of the proposed lease, which exceeds the MAG of \$733,176 by \$81,624, as shown in Table 5 below.

**Table 5: Calculation of Percentage Rent for Host**

Revenue Brackets	Percent Added to Percentage Rent	Anticipated Revenues for Host	Total
Up to and including \$500,000	12%	\$ 500,000	\$ 60,000
\$500,001 to and including \$1,000,000	14%	500,000	70,000
Over \$1,000,000	16%	4,280,000	684,800
	<b>Total</b>	<b>\$5,280,000</b>	<b>\$814,800</b>

Under the proposed lease, because ongoing construction in Terminal 3 has prevented the opening of the fourth retail location, Host will only be required to pay the greater of a prorated MAG<sup>4</sup> or percentage rent<sup>5</sup> for the three locations which are open until the fourth lease location in Terminal 3 is open, which is expected to be in January 2014. The MAG is adjusted annually by the Airport based on the Consumer Price Index.

The estimated revenues to be 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. Thus 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, such as those realized from the proposed lease.

## RECOMMENDATION

Approve the proposed resolution.

<sup>4</sup> The prorated MAG is calculated based on the percentage of the premises available and open for business. Currently, of the total 5,617 square feet included in the proposed lease agreement, 5,148 square feet, or 91.7%, comprise the total space open for business. As noted above, the 469 square-foot space in Terminal 3 is not yet open for business. Therefore the prorated MAG currently being assessed for rent of the premises is 91.7% of the total MAG, or 91.7% of the \$733,176 MAG, totaling \$672,322.

<sup>5</sup> Percentage rent is based on the gross revenues of the three available spaces.