

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

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: April 5, 2018 Budget and Finance Sub-Committee Meeting

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<p>Items 2, 3 & 4 Files 18-0006, 18-0007, 18-0008</p>	<p>Department: San Francisco International Airport (Airport)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions approve International Terminal A Food and Beverage Concession Leases between San Francisco International Airport (Airport) as landlord and the following tenants: (i) SSP America, Inc., for the Manufactory Food Hall and Marina’s Café, (File 18-0006); (ii) Black Point Coffee SFO, LLC for the Black Point Cafe (File 18-0007); and (iii) Andre-Boudin Bakeries, Inc., for Boudin SF (File 18-0008). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport issued three Requests for Proposals (RFP) in the spring of 2017 for three food and beverage concession leases in the International Terminal A and received 15 proposals. The Airport Commission approved leases with the three highest scoring proposers for each food and beverage concession in October 2017: (1) SSP America, Inc. (SSP America) for The Manufactory Food Hall and Marina’s Café, (2) Black Point Coffee SFO, LLC (Black Point) for the Black Point Café, and (3) Andre-Boudin Bakeries, Inc. (Andre-Boudin) for Boudin SF. • The leases with SSP America (File 18-0006) and Andre-Boudin (File 18-0008) have terms of ten years, from approximately September 2018 following completion of tenant improvements through August 2028, and the lease with Black Point (File 18-0007) has a term of eight years, from approximately July 2018 following the completion of tenant improvements through June 2026. The Airport has two one-year options to extend each lease. • The tenants would each pay the greater of the MAG or percentage rent based on gross revenues. The MAG rent is (i) \$495,000 for SSP America, (ii) \$165,000 for Black Point, and (iii) \$330,000 for Andre-Boudin. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Over the initial terms of the leases, the Airport would receive at least \$9,570,000 in MAG rent. If the options to extend are each exercised, the Airport would receive at least \$1,980,000 in additional MAG rent, for a total of at least \$11,550,000. The MAG would be adjusted annually based on the Consumer Price Index (CPI), but never decrease from the previous year. The Airport expects to receive percentage rent, which would exceed the MAG. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In February and March 2017, the Airport Commission authorized San Francisco International Airport (Airport) staff to issue three Requests for Proposals (RFP) for the following food and beverage concessions: (i) the International Terminal “A” Food Hall and Café Concession Lease; (ii) the International Terminal “A” Coffee Kiosk Concession Lease; and (iii) the International Terminal “A” Historic Restaurant Concession Lease. In July 2017, the Airport received fifteen proposals for the three leases. A three-member panel reviewed the proposals and determined the highest ranking responsive and responsible proposer for each lease. The proposals and scores are shown on Table 1 below.

Table 1: Proposals and Scores for RFPs

Proposer	Concept Name	Score
International Terminal “A” Food Hall and Café Concession Lease (File 18-0006)		
SSP America, Inc.	The Manufactory Food Hall	102.33
Tastes on the Fly, San Francisco, LLC	SF Eats Food Hall	95.67
MRMG, LLC	The American SFO Food Hall	62.00
International Terminal “A” Coffee Kiosk Concession Lease (File 18-0007)		
Black Point Coffee SFO, LLC	Black Point Café	91.00
SSP America, Inc.	Tartine Bakery & Café	87.67
Amoura International, Inc.	Amoura Café	82.00
Emporio Rulli, Inc.	Bancarella	75.67
Green Beans Coffee Company USA, LLC	Green Beans Coffee	74.33
Canonica New York, LLC	Graffeo Coffee & Pastries	71.00
Rylo Management, LLC	Harvest	64.33
Gate 74, Inc.	Café Roma	56.00
Trish’s Dishes	Trish’s Mini Donuts	35.67
International Terminal “A” Historic Restaurant Concession Lease (File 18-0008)		
Andre-Boudin Bakeries, Inc.	Boudin SF	102.00
Midfield Concession Enterprises, Inc.	Gold Dust Kitchen & Lounge	66.33

On October 3, 2017, the Airport Commission approved leases for food and beverage concessions in International Terminal “A” with (1) SSP America, Inc. (SSP America) for The Manufactory Food Hall, (2) Black Point Coffee SFO, LLC (Black Point) for the Black Point Café, and (3) Andre-Boudin Bakeries, Inc. (Andre-Boudin) for Boudin SF.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions approve Food and Beverage Leases between the Airport as landlord and:

- (i) SSP America, Inc., as tenant, for the Manufactory Food Hall in the International Terminal A and Marina's Café Consolidated Administrative Campus on West Field Road, with a term of ten years and Minimum Annual Guaranteed (MAG) rent of \$495,000 (File 18-0006)¹;
- (ii) Black Point Coffee SFO, LLC, as tenant, for Black Point Café in the International Terminal A, with a term of eight years and MAG rent of \$165,000 (File 18-0007); and
- (iii) Andre-Boudin Bakeries, Inc., as tenant, for Boudin SF in the International Terminal A, with a term of ten years and MAG rent of \$330,000 (File 18-0008) as tenants.

The Airport would have two one-year options to extend each lease.

The tenants would each pay the greater of the MAG or percentage rent based on total revenues. The MAG would be adjusted annually based on the Consumer Price Index (CPI), but would not be less than the prior year MAG amount.

The rent commencement date would be the earlier date of (i) completion of construction of tenant improvements, or (ii) 120 days (for the leases between the Airport and Black Point Coffee SFO, LLC, and Andre-Boudin Bakeries, Inc.) or 150 days (for the lease between the Airport and SSP America, Inc.) after the tenant is given permission to occupy its space. During construction, tenants may operate a temporary facility and provide the Airport twelve percent of gross revenues in rent. The key provisions of the three proposed leases are shown in Table 2 below.

¹ The SSP America lease consists of two facilities: (i) approximately 3,241 square feet in International Terminal "A" for a Food Hall consisting of Tartine Bakery Café, Kin Khao Thai Eatery, and Cala Taqueria (Manufactory Food Hall); and (ii) approximately 700 square feet in the Consolidated Administrative Campus on West Field Road for Marina's Café.

Table 2: Key Provisions of Proposed Leases

Tenant	SSP America (File 18-0006)	Black Point (File 18-0007)	Andre-Boudin (File 18-0008)
Term	Ten years, beginning approximately September 2018	Eight years, beginning approximately July 2018	Ten Years, beginning approximately September 2018
Options to Extend	Two one-year options for Airport to extend	Two one-year options for Airport to extend	Two one-year options for Airport to extend
MAG Rent	\$495,000	\$165,000	\$330,000
MAG Adjustment	Annually based on CPI	Annually based on CPI	Annually based on CPI
Percentage Rent of Gross Revenues	6% up to \$2,500,000 8% from \$2,500,000 to \$3,000,000 10% above \$3,000,000	6% up to \$1,000,000 8% from \$1,000,000 to \$1,500,000 10% above \$1,500,000	8% up to \$1,000,000 10% from \$1,000,000 to \$1,500,000 12% over \$1,500,000
Interim Rent During Construction	12% of gross revenues	12% of gross revenues	12% of gross revenues
Square Footage	Approximately 3,941 square feet, including 3,241 square feet in International Terminal "A" and 700 square feet in the Consolidated Administrative Campus on West Field Road	Approximately 351 square feet in International Terminal "A"	Approximately 2,000 square feet in International Terminal "A"
Promotional Fee	\$1 per square foot per year	\$1 per square foot per year	\$1 per square foot per year
Cleaning Fee	\$38 per square foot per year for the Food Hall Premises	\$38 per square foot per year	N/A (cleaning provided by tenant)
Pest Control Fee	\$75 per month, subject to adjustment	\$75 per month, subject to adjustment	\$75 per month, subject to adjustment
Deposit Amount	Equal to ½ of the initial MAG (subject to mid-term adjustment)	Equal to ½ of the initial MAG (subject to mid-term adjustment)	Equal to ½ of the initial MAG (subject to mid-term adjustment)
Minimum Investment Amount	\$1,000 per square foot for the Food Hall in the International Terminal and \$400 per square foot for the Café in the Consolidated Administrative Campus (\$3,521,000 total)	\$1,000 per square foot (\$351,000 total)	\$1,000 per square foot (\$2,000,000 total)

FISCAL IMPACT

Under the proposed leases, the Airport would receive the greater of the MAG or percentage rent based on gross revenues. The MAG would be adjusted annually based on the CPI, but it would never decrease from the previous year. Between the three leases, the Airport would receive \$990,000 in MAG rent the first year, and at least \$9,570,000 in MAG rent over the initial terms of the leases. If the two one-year options are exercised for each lease, the Airport would receive at least \$1,980,000 in additional MAG rent, for a total of \$11,550,000. According to Mr. Tomasi Toki, Airport Principal Property Manager, the Airport expects to receive percentage rent, which would exceed the MAG. The breakdown of MAG rent received by the Airport, without CPI adjustment, is shown in Table 3 below.

Table 3: MAG Rent Collected Under Proposed Leases, Without CPI Adjustment

File Number	Tenant	Initial MAG	MAG over Initial Term	MAG over Option Years	Total
18-0006	SSP America	\$495,000	\$4,950,000	\$990,000	\$5,940,000
18-0007	Black Point	165,000	1,320,000	330,000	1,650,000
18-0008	Andre-Boudin	330,000	3,300,000	660,000	3,960,000
Total		\$990,000	\$9,570,000	\$1,980,000	\$11,550,000

RECOMMENDATION

Approve the proposed resolutions.

Item 5 File 18-0091	Department: Mayor Board of Supervisors
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would adopt a fixed two-year budgetary cycle for four City departments – Airport, Port, Public Utilities Commission, and Child Support Services – for FY 2018-19 and FY 2019-20. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Under City Charter Section 9.101, the Mayor and Board of Supervisors are authorized to determine in an even-numbered fiscal year that the upcoming budget for some or all City departments should be a fixed two-year budget. The Board of Supervisors only reviews the budget in the second year if there are significant changes in revenues or expenditures. • Under the proposed resolution, the Board of Supervisors does not adopt a new budget for each of the four departments in FY 2019-20, which is the second year of the fixed two-year budgetary cycle. However, an increase or decrease of more than 5 percent in the revenues or expenditures to the respective departments requires Board of Supervisors approval of a budget amendment. • The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2019; and (b) the Mayor to submit proposed budget amendments responding to the Controller’s report to the Board of Supervisors by June 1, 2019. The proposed budget amendments are subject to Board of Supervisors appropriation approval. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed resolution is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.101 states that in even-numbered fiscal years, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years.

BACKGROUND

In 2009, the voters passed Proposition A, which, among other changes to the budget process, amended the City Charter to adopt rolling two-year budget cycles and allow for the Mayor and the Board of Supervisors to establish fixed two-year budget cycles for some or all departments. Previous to the passage of Proposition A, the City adopted one-year budgets for all departments, except for the San Francisco Municipal Transportation Agency (SFMTA), which has a two-year fixed budget pursuant to City Charter Section 8A.106.

Since the passage of Proposition A, the Board of Supervisors has adopted three resolutions establishing fixed two-year budget cycles for certain City departments, as shown below:

Budget Cycle	FY 2012-13 – FY 2013-14	FY 2014-15 – FY 2015-16	FY 2016-17 – FY 2017-18
Resolution	0464-11	0108-14	0049-16
Departments	Airport Port Public Utilities Commission	Airport Port Public Utilities Commission Child Support Services Retirement System Library	Airport Port Public Utilities Commission Child Support Services

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would adopt a fixed two-year budgetary cycle for four City departments – Airport, Port, Public Utilities Commission, and Child Support Services – for FY 2018-19 and FY 2019-20.

Under the proposed resolution, the Board of Supervisors does not adopt a new budget for each of the four departments in FY 2019-20, which is the second year of the fixed two-year budgetary cycle. However, an increase or decrease of more than 5 percent in the revenues or expenditures to the respective departments requires a budget amendment subject to Board of Supervisors approval.

The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2019; and (b) the Mayor to submit proposed budget amendments responding to the Controller's report to the Board of Supervisors by June 1, 2019. The proposed budget amendments are subject to Board of Supervisors appropriation approval.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.