



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: William F. Sherry, A.A.E.

SUBJECT: SEE BELOW

DATE: May 31, 2011

Approved

Date

6/7/11

COUNCIL DISTRICT: City-Wide

**SUBJECT: AUTHORIZATION TO NEGOTIATE AND EXECUTE FIRST
AMENDMENTS TO THE HOST INTERNATIONAL, INC., FOOD &
BEVERAGE AND RETAIL CONCESSION AGREEMENTS**

RECOMMENDATION

Adopt a resolution authorizing the Director of Aviation ("Director") to negotiate and execute:

- (a) A First Amendment to the Host International, Inc. ("Host") Food and Beverage Concession Agreement for the closure of Chiaramonte's Deli in Terminal A+, an associated reduction in the minimum annual guarantee and a reimbursement for the unamortized capital investment should the closure become permanent; and
- (b) A First Amendment to the Host Retail Concession Agreement for the closure of Sunset News in Terminal A+, an associated reduction in the minimum annual guarantee and a reimbursement for the unamortized capital investment should the closure become permanent.

OUTCOME

The execution of First Amendments to the Host Food and Beverage Concession Agreement and the Host Retail Concession Agreement will result in the closure of Chiaramonte's Deli and Sunset News in Terminal A+ with an associated reduction in the minimum annual guarantee to the City as a result of a reduction in active aircraft gates. Should the gates remain inactive after 4 years, the concessions closure will be permanent and the Airport will reimburse Host for the Chiaramonte's Deli and Sunset News unamortized capital investment.

BACKGROUND

On October 12, 2007, the City released a Request for Proposals (“RFP”) for a new food, beverage and retail program for the Airport. On June 10, 2008, Council approved Resolution No. 74413 that authorized the City Manager to negotiate and execute Concession Agreements with Host for half of the food and beverage concessions program and half of the retail concessions program at the Airport. The Host Food and Beverage Concession Agreement was executed on February 2, 2009 and Host Retail Concession Agreement was executed on January 29, 2009.

The new concessions program at the Airport includes 25 food and beverage locations and 19 retail locations that have already opened. Host operates roughly half of those concessions. The number of concession locations was established based on expectations of higher levels of passenger activity. Despite slight year-over-year improvements in passenger activity in the past few months, the current economic recession has had a significant adverse impact at the Airport resulting in a 33% reduction in the number of commercial flights since 2007.

To assist the concessions and to better align the Airport’s facilities with its current level of passenger traffic, the Airport expects to temporarily close gates 1 - 6 in Terminal A+. Terminal A+ is the northern portion of Terminal A, comprising a total of 8 gates. A layout of Terminal A and Terminal A+ is attached with all concessions identified. Terminal A+ was originally built by American Airlines when that carrier was the dominant airline at the Airport and it currently serves American, Hawaiian, and jetBlue airlines. It has had a disproportionate decrease in passenger activity due to reductions in flights operated by American and jetBlue.

While the Airport first developed the concept to close a portion of Terminal A+ to better assist our concessionaires, we were not prepared to move forward until all affected Airport tenants agreed with the changes. All of these tenants, including the airlines, are now supportive of the gate inactivations and Host has requested to close Chiamonte’s Deli and Sunset News, which primarily serve passengers in gates 1 – 6. The Airport is agreeable to Host’s proposal as well as a reduction to the minimum annual guarantee (MAG) paid to the City associated with these concession locations. The MAG reduction would be \$194,480 per year for Chiamonte’s Deli and \$160,380 per year for Sunset News.

The gate closures would stay in effect until the Airport deems that passenger and/or flight activity warrants the re-opening. If and when the gates are re-opened, the closed concessions will concurrently resume operations and the MAG will be restored to the current level, assuming such re-opening occurs within 4 years of the gate closures. Should the gate closures last more than 4 years, the MAG will be permanently reduced and the Airport will reimburse Host for its remaining unamortized capital investment back to the initial date of closure, estimated to be \$900,000.

ANALYSIS

When the new concessions program was launched as part of the Terminal Area Improvement Program, both the Airport and its concession partners anticipated growth in passenger activity that would support the new shops and restaurants in the terminals. However, the recession has resulted in underutilization in Terminals A and A+, resulting in lower sales than concessionaires originally projected at their concession locations.

Shifting Terminal A+ airlines to Terminal A and the International Arrivals Building will improve passenger convenience by reducing the walking distance to their gates and concentrating passenger activity in areas with a wider variety of concession choices. This is expected to increase sales at all remaining concession locations in Terminal A and benefit all food & beverage and retail concessionaires.

With reduced passengers in Terminal A+, Host will not be able to generate adequate sales to support Chiamonte's Deli and Sunset News. The closure of these concessions will result in an associated MAG reduction which will become permanent should the gates remain closed after 4 years. Should the closure be permanent, the Airport will also reimburse Host for its remaining unamortized capital improvements.

EVALUATION AND FOLLOW-UP

The Director of Aviation shall be responsible for coordination of these Amendments and monitoring passenger and/or flight activity to determine when inactive gates should be reopened.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach). **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

HONORABLE MAYOR AND CITY COUNCIL

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Subject: First Amendments to the Host Concession Agreements

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This item does not meet the above criteria requiring additional notification; however, it will be posted on the City's Council Agenda Website for the June 21, 2011 Council Meeting.

COORDINATION

This item has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COST IMPLICATIONS

Revenue to the Airport will decrease by \$354,860 per year while Chiaramonte's Deli and Sunset News remain closed. Should the closure become permanent after 4 years, the Airport will reimburse Host an estimated \$900,000 in unamortized capital improvements.

CEQA

Not a project, File No. PP10-066(e), Amendment to services agreement involving no physical change to the environment.

/s/

WILLIAM F. SHERRY, A.A.E.

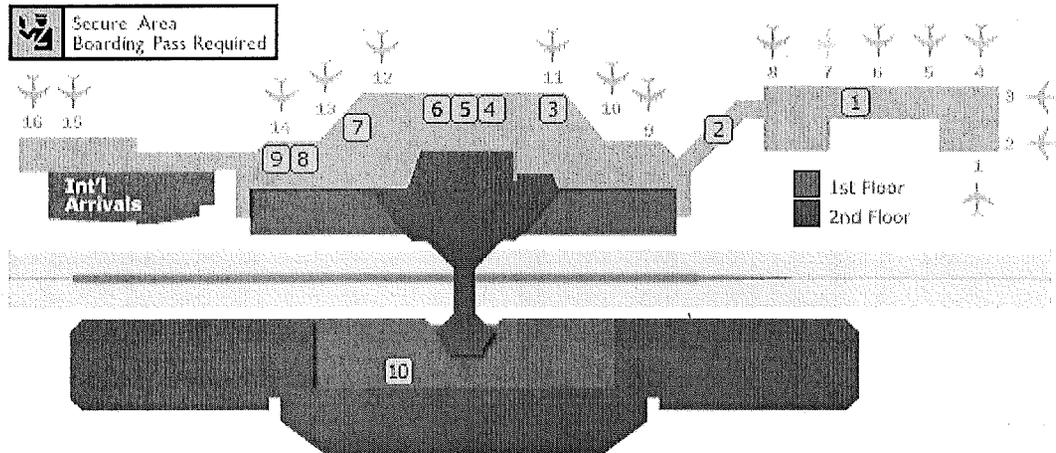
Director of Aviation

Airport Department

For questions please contact William F. Sherry, Director of Aviation at (408) 392-3611

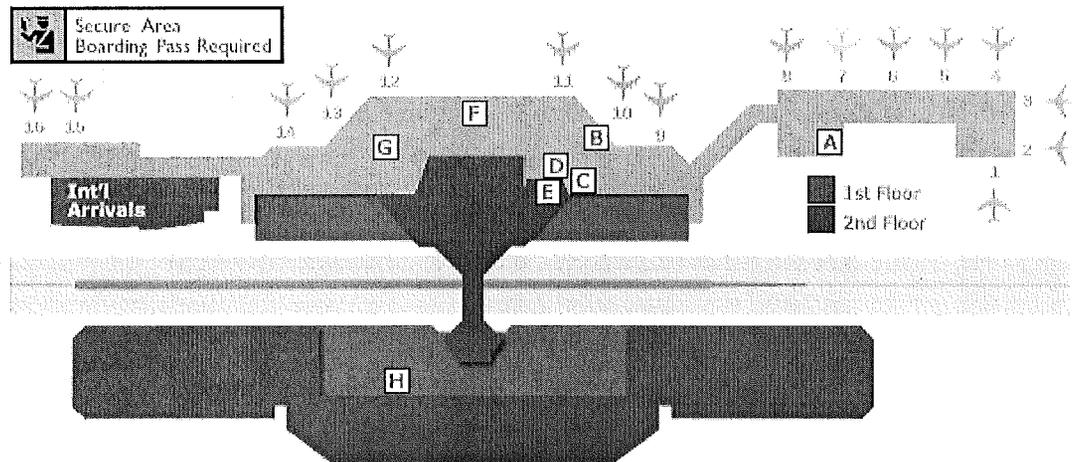
Attachment: Terminal A and Terminal A+ Layout

Terminal A and Terminal A+



Food & Beverage

- | | |
|-----------------------|----------------------|
| 1. Chiaramonte's Deli | 6. Tres Gringos |
| 2. Fresh Attractions | 7. Starbucks |
| 3. Gordon Biersch | 8. Fresh Attractions |
| 4. Sora | 9. Sonoma Chicken |
| 5. Peet's Coffee | 10. Euro Café |



Shops and Services

- | | |
|---------------------------------------|----------------------------|
| A Sunset News Express | F Discover San José |
| B Schurra's Fine Confections | G CNN Newsstand |
| C Authors Bookstore/Hicklebees | H Hudson News |
| D Hudson News | |
| E CNN Newsstand | |