SAN FRANCISCO AIRPORT COMMISSION

MINUTES

Tuesday, March 17, 2020

9:00 A.M.

Room 400 - City Hall
#1 Dr. Carlton B. Goodlett Place
(400 Van Ness Avenue)
City and County of San Francisco

LONDON N. BREED, MAYOR

COMMISSIONERS
LARRY MAZZOLA
President
ELEANOR JOHNS
RICHARD J. GUGGENHIME
MALCOLM YEUNG

IVAR C. SATERO
Airport Director

C. CORINA MONZÓN
Commission Secretary

SAN FRANCISCO INTERNATIONAL AIRPORT
SAN FRANCISCO, CALIFORNIA 94128
Minutes of the Airport Commission Meeting of  
Tuesday, March 17, 2020

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5. Award of the Terminal 2 Bookstore Lease to Books, Inc.

6. Award of the Terminal 3 Boarding Area E Pop-Up Retail Program Lease - Space 1 Merchandising America, Inc. dba PACK-N-GO

7. Approval of Amendment No. 1 to the International Terminal Duty Free and Luxury Stores Lease No. 17-0303 DFS Group, L.P.

8. Determination to Proceed with the Taxiway B5 Rehabilitation Project and Authorization to Advertise for Bids for Contract No. 11100.61, Construction Services for the Taxiway B5 Rehabilitation Project

9. Authorization to Accept and Expend Federal Aviation Administration Grant Funds for an Airfield Improvement Project $7,500,000

10. Authorization to Accept and Expend Federal Aviation Administration Grant Funds for the Continuation and Expansion of the Noise Insulation Program $7,000,000

11. Authorization for Modification No. 2 to Contract No. 50106 for Noise Insulation Consulting Services and to Exercise the Second 1-Year Option and Increase the Contract Amount The Jones Payne Group, Inc. $2,500,000

H. CONSENT CALENDAR OF ROUTINE ADMINISTRATIVE MATTERS

12. Award of Sole Source Contract No. 50224, Support and Maintenance Services for the Airfield Lighting Control Monitoring System Maintenance and Support Services Project Global Access Supply Inc. $454,691

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Minutes of the Airport Commission Meeting of
Tuesday, March 17, 2020

A. CALL TO ORDER:
The regular meeting of the Airport Commission was called to order at 9:00 A.M. in Room 400, City Hall, San Francisco, CA.

B. ROLL CALL:
Present: Hon. Larry Mazzola, President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Malcolm Yeung

Due to the Public Health Officer’s Order to Shelter in Place issued on March 16, 2020 and in accordance with the Governor’s Executive Order issued on March 12, 2020 that suspended select aspects of the Brown Act, Airport Commissioners joined this meeting by teleconference.

C. ADOPTION OF MINUTES:
The minutes of the regular meeting of March 3, 2020 were adopted unanimously upon a motion by Commissioner Johns and a second by Commissioner Guggenhime.


D. DIRECTOR’S REPORT (Discussion Only):
Airport Director Ivar Satero provided an update on the following:

Competitive Process Communications – Airport Quiet Period Policy: In the wake of the indictment of Public Works Director Mohammed Nuru and the subsequent audit and investigation, the Airport is establishing and formalizing policies around the Quiet Period associated with contracting RFPs it issues. At the next Commission meeting, Staff will propose a policy for approval. The Airport has done this in the past for specific items, such as the RFP for the hotel operator and one or two mass RFP procurements for food and beverage. This policy will now be applicable to all RFP processes at the Airport, which will envelop all communications that are inappropriate from the time of the issuance of the RFP to award of the contract. It includes communications with Commissioners, Staff, and panel members. Attestations by proposers that they’ve followed the Quiet Period policy will be required and attestations by our selection panel that they will adhere to the policy and, prior to finishing their work, that they have not been improperly contacted.

Community Impacts from Ground Based Noise: Noise has been a hot topic in the community with FAA changes in arrival and departure procedures in order to make the national airspace system more efficient. Ground Based Noise is a nuisance to communities adjacent to the Airport, such as Millbrae, Burlingame Hillsborough, and San Bruno. Ground Based
Noise encompasses noises emitted from aircraft run-ups, taxiing, use of auxiliary power units, maintenance operations, construction, rubber removals, and other types of on-airport activities. The SFO Roundtable is studying the effects of Ground Based Noise supported by data from the Airport. It will look at such things as the potential impacts of noise reflectivity, the built environment that exists, and if there has been a reconfiguration that has contributed to the change. Data from the Airport includes those from noise monitors in the community and 3D modeling of Ground Based Noise from its consultant.

Coronavirus Disease (COVID-19): The Airport team has done incredible work in the past couple of weeks in responding to the unprecedented set of circumstances. First and foremost, the priority is protecting the health and well-being of the traveling public and employees. Last week, the Airport recognized the need for a more significant organizational structure and communication plan, and it created a COVID-19 Leadership Team comprised of Senior Staff and key personnel. The team has created an action plan for all the initiatives that the Airport needs to move day-by-day to protect passengers. The team meets daily at 9 am. Two priorities have been developed. The first piece is the importance of focusing on the Airport’s finances and revenues and small business support. The Airport has established two sub-committee groups to develop those plans around support and make timely decisions around finance and revenues and ensure the success of small businesses operating at the Airport. In particular, the food and beverage vendors have a lot of small businesses involved. The second piece is engaging with the airlines and having more real-time conversations with airlines and tenants and stakeholders. Staff have established twice-a-week telecons that are separate open lines with airlines and food and beverage providers. It has been well-received and well-attended. Cheryl Nashir, Acting Chief Business and Finance Officer has stepped into the acting role of Chief Business and Finance Officer. Leo Fermin, Chief Business and Finance Officer is taking some time off, but will be available to participate in this process.

Mayor London N. Breed has issued a shelter-in-place order, and the Airport has identified essential vs. non-essential staff. Effective this morning at 12:01 am, the Airport is running an essential staff-only operation. It had gone into a telecommute operation a few days ago. Now, the Airport is following the Mayor’s leadership around staffing only to the essential level. Staff will keep the Commission informed of what that looks like, but the operation of the Airport and protection of Airport passengers and Staff remain the priorities. The Airport has successfully reduced the number of checkpoints with TSA. The City considers public works construction an essential activity. Staff are working with contractors and sub-contractors to maintain the momentum in the Airport’s construction program. Staff are making decisions on the Harvey Milk Terminal 1 opening, including airlines supporting the terminal as well as construction resources, and will keep the Commissioners informed.

International passenger traffic is down 35-40% and continuing to decline. Domestic passenger traffic is down 12-15%. United recently announced a 50% reduction, and other carriers have announced a reduction of up to 75%. The airlines have not yet announced how this affects SFO flights. Airport financial actions include suspending all non-essential hiring and travel and postponing non-essential RFPs. The Airport has a number of levers at its disposal to mitigate through this crisis and continues to monitor on a real-time basis through its sub-committee. The next step is to establish trigger points if more aggressive action is necessary. Staff are also engaged at the federal level and have been part of the crafting of
a framework for federal relief. There are proposals of up to $10 billion for airport relief. Based on calculations, SFO could be eligible for a significant amount. Staff will keep Commissioners informed. Regarding small businesses, concessions are seeing a 50-70% decrease in spending. Essential vendors are staying open, such as food and beverage, newsstands, ATM/foreign currency services, and CLEAR-registered travel. Retail is considered non-essential, and Duty Free and specialty retail are closing. Staff are working with concessionaires on hours of operation. Restaurants are converting to take-out only. The Airport is also implementing a forbearance program for concessionaires, which would be rent relief for a certain duration. The Airport anticipates a forbearance of two months of rent relief with repayment within a certain time period once conditions improve. An example would be depending on economic conditions on July 1, concessionaires would have a year to repay the two-month forbearance. Staff will be issuing this information to concessionaires today.

Commissioner Johns asked if retail folks would be in a different category of relief. Director Satero responded that they would receive the same rent forbearance for those two months, which is zero rent. Commissioner Johns asked if the Airport knew what was happening to the retail employees. Director Satero said the Airport does not but offered assistance with placements. Commissioner Guggenhime asked how the Airport will accommodate current passengers. The Airport should encourage some of the operators to remain open. Director Satero responded that the Airport must balance the concessions that are open with the volume of passengers. Staff are conducting an analysis to determine what the right amount of services are based on reduced volumes. Essential services will be maintained, but Staff are working with concessionaires so that they’re not losing money. Commissioner Yeung asked three questions: What is the level of coordination with CBP and CDC to monitor incoming passengers and at the same time prevent social clustering? Does requiring take-out place pressure on common areas/lounges? Do employees of concessions have access to City employee benefits for small businesses regardless of whether they are located within the boundaries of the City and County of San Francisco? Director Satero responded that the Airport is having multiple conversations a day with federal partners and monitoring the activity in arrivals on an almost hourly basis. SFO hasn’t had the same levels of congestion as other airports, which may be attributed to the misapplication of screening requirements at those other airports. There are some wait times that makes it difficult to mitigate closeness. Staff are working with CDC to expedite processing. The processing consists of returning passengers from alerted destinations receive a questionnaire. If they are exhibiting any symptoms, they are subject to additional screenings. There are also random temperature screenings at the jet bridges. Some pre-clear flights will also receive screening. Those are the folks that arrive in the terminal but do not go through Customs and come out through the Departures Hall. CBP will be sending out small teams to greet those arriving flights and will implement the same protocols for those deplaning passengers. The Airport is fortunate to have 30+ CDC personnel onsite. President Mazzola commented on the need to protect vendors’ employees. Director Satero continued that the common areas are expansive, and people have been cognizant of maintaining social distancing. As passengers get grab-and-go food, they should be able to find space in the terminals to maintain necessary separation, but Staff will continue to monitor and report back any concerns around the inability of the Airport to accommodate social distancing. To address Commissioner Yeung’s last question, Emylene Aspilla, Director of Social Responsibility and Community Sustainability, said that the extended sick time is for employers who fall under the Paid Sick Leave Ordinance, which doesn’t apply to SFO.
workers. She has reached out to Office of Labor Standards and Enforcement (OLSE) to see if it could potentially apply to the Airport. The policy allows employers to extend paid sick leave by five days. Airport employees follow the MCO and the HCO for paid time off. Those in the City proper follow the Paid Sick Leave Ordinance. Commissioner Yeung thanked Ms. Aspilla for being proactive and contacting OLSE to see whether or not that coverage may extend to our vendors.

Commissioner Johns asked if there is a policy for passengers arriving with symptoms and any follow-up on getting that passenger segregated and receiving the care that they need. Director Satero said a call goes immediately to the San Mateo County Department of Public Health, and the passenger would be transported directly offsite to a facility. Commissioner Johns asked if there has been any follow-up on the Alaska Airlines employee who was found to have Coronavirus. Director Satero said Staff has followed up on the employee’s path of travel and did a lot of enhanced cleaning in those spaces. They are also looking at who may have been in contact with similar surfaces (for example our biometrics) and have been in contact with those people to monitor their health. Ralf Ruckelshausen, Director for Safety, Security and Airside Services added that they put a list together of the path of travel and notified all involved companies yesterday with a list of their employees. Staff are also in close contact with Alaska Airlines as they’re doing their own self-quarantine.

There were no further questions from the Commissioners.

Kevin Westlye, High Flying Foods, stated that restaurants are down over 50% in the entire airport and can’t see the bottom of the well. He was hoping to see a rent forgiveness program of all MAG, percentage rent, and fees for 60 days. They are bleeding through reserves. Businesses are trying to do the right thing and not lay off employees but need more help. He would like to ask the Airport to reconsider the policy and allow rent to be forgiven and not repaid.

There were no further comments from the public.

E. SPECIAL ITEMS:
Item No. 1 was approved unanimously by a motion by Commissioner Mazzola and a second by Commissioner Guggenheim.

1. Election of Vice President

No. 20-0040. Election of Vice President

President Mazzola stated with the resignation of Vice President Linda Crayton for health reasons, the Commission needs to fill her unexpired term. He nominated Commissioner Johns, who has been on the Commission for over 16 years.

Commissioner Johns stated that she humbly accepted the role of Vice President and thanked the Commissioners for their support.
F. ITEMS INITIATED BY COMMISSIONERS (Discussion Only):
There were no items initiated by Commissioners.

G. ACTION ITEMS RELATED TO ADMINISTRATION, OPERATIONS & MAINTENANCE
Item No. 2 was approved unanimously by a motion by Commissioner Johns and a second by Commissioner Guggenhime.

2. **Award of Four Harvey Milk Terminal 1 Food and Beverage Concession Leases in Phases 3 and 4**
   - **Lease 10 - Gourmet Grab & Go Market:** ProperFood SFO Airport, LLC
   - **Lease 12 - Casual Dining and Bar:** HFF SFO Two, LLC
   - **Lease 13 - Coffee or Coffee & Retail – a Small Business Enterprise Set-Aside:** Culinary Heights Hospitality
   - **Lease 14 - Japanese or Poke – a Small Business Enterprise Set-Aside:** Heigh Connects, LLC

   Resolutions awarding four Harvey Milk Terminal 1 Food and Beverage Concession Leases in Phases 3 and 4, and directing the Commission Secretary to request approval of the Leases from the Board of Supervisors.

   **Cheryl Nashir, Acting Chief Business and Finance Officer** presented on the item for approval of four food and beverage leases in Harvey Milk Terminal 1. The entities recommended for award include two that the Airport is already doing business with and two entities that will be new to SFO. With Airport Commission prior authorization, Staff conducted an RFP process for five leases in Harvey Milk Terminal 1. One lease only received a single proposal, which was disqualified for not meeting minimum qualifications. For the remaining four leases, Staff received between two to six proposals each. A second disqualification was necessary for an incomplete proposal submittal.

   For Lease #10, a Gourmet Grab & Go Market, award is recommended to ProperFood SFO Airport, LLC. Their concept is Proper Food, which is pre-packaged, fresh, upscale salads, sandwiches, meals, and snacks. They have 10 locations locally and four in New York City. They are a joint venture between namesake Proper Foods and Silver Dragon Café, both from San Francisco and both new to SFO.

   For Lease #12, a Casual Sit-down Restaurant and Bar, award is recommended to HFF SFO Two, LLC for the concept Balboa Café. The operator, High Flying Foods, is a tenant already. It operates some Peet’s Coffee & Tea locations, Gotts Roadside, and Farmerbrown. For this opportunity, it licensed local icon Balboa Café, a San Francisco restaurant that is more than 100 years old.

   For Lease #13, a Small Business Enterprise Coffee or Coffee/Retail location, award is recommended to Culinary Heights Hospitality, which will operate a Ritual Coffee Roasters location. Ritual is a San Francisco-based brand, and the ownership of
Culinary Heights Hospitality are tenants of the Airport under different business names. They operate Andale Mexican, 24th & Mission Taco House, and Valencia St. Station.

Finally, for Lease #14, a Small Business Enterprise Sushi and/or Poke concept, award is recommended to Heigh Connects, LLC, which will be a brand-new operator for SFO. Heigh Connects is a Seattle-based company. They will operate a Sam Choy’s Poke to the Max. They operate three locations in the Seattle area including one at Sea Tac Airport. They have a franchise operator in San Bruno and well-known food trucks in both Washington and the Bay Area.

There were two protests on this RFP. One protest alleged that the proposer chosen for the coffee lease was beyond the size requirement. This protest was found to be without merit. The other protest pointed out that the proposer for the sushi/poke lease was not in good standing with the franchise tax board in California. The proposer was able to show they were in good standing in Washington, where they presently operate, and they cured a minor defect related to their standing in California to Staff’s satisfaction.

The lease terms are all 12 years with one 2-year option to extend. Rent is the greater of Minimum Annual Guarantees set by the Airport or tiered rent of 8%, 10% and 12%. All these leases require Board of Supervisors approval.

Commissioner Yeung commended that three out of four of the awardees are San Francisco-based companies. He is disappointed that the Japanese/poke restaurant is not since there are such a significant number of operators in the Bay Area. However, he understands Staff is legally restricted from using geography as a factor. He hopes that the Airport continues to support and encourage local businesses to bid and hopefully be successful at the Airport especially as we enter into these uncertain economic times.

There were further questions from the Commissioners.

Kevin Westlye, High Flying Foods, thanked the Airport for the work in putting together the RFP and said they are thrilled to bring Balboa Café, a historic and iconic restaurant, to the Airport.

Hilary Newsome, Balboa Café, said the business is thrilled with the opportunity. It is part of the San Francisco legacy business community and is 107 years old. As a fifth generation San Franciscan, she is thrilled to be working with High Flying Foods. Today is the first day it’s been closed in the last 30 years.

Item No. 3 was approved unanimously by a motion by Commissioner Johns and a second by Commissioner Guggenhime.
3. **Award of Three Harvey Milk Terminal 1 Retail Concession Leases in Phases 3 and 4**

   - **Lease 8 - A Traveler’s Retreat:** Minute Suites Travelers Retreat SFO, LLC
   - **Lease 11 - An Apparel/Lifestyle Store:** Genesco Partners Joint Venture #11
   - **Lease 12 - A Bookstore:** HG SFO Retailers 2017 JV

   Resolutions awarding three Harvey Milk Terminal 1 Retail Concessions Leases in Phases 3 and 4, and directing the Commission Secretary to request approval of the Leases from the Board of Supervisors.

   Cheryl Nashir, Acting Chief Business and Finance Officer presented on the item for approval to award three retail leases in Harvey Milk Terminal 1. These leases are to open between May 2021 and March 2023. With Airport Commission prior authorization, Staff conducted an RFP process for three retail leases in Harvey Milk Terminal 1, and five proposals were received by the specified submittal date. Lease #8 is called a “Traveler’s Retreat.” The entity being recommended for award is Minute Suites Travelers Retreat SFO, LLC, for their concept, a Minute Suites and a Be Relax Spa. Minute Suites will be a new tenant for SFO. Their joint venture partner, Be Relax, recently won two spa leases at SFO but have not completed construction yet. Staff are excited about this pairing which would be an oasis for guests. It includes 12 private rooms, showers, massage rooms, spa services and related retail merchandise.

   Lease #11 is for a large corner store identified as apparel or lifestyle. Only one proposal was received from Genesco Partners Joint Venture #11 and their Johnston & Murphy store. This brand historically was for men’s shoes, but it has been refreshed and made relevant for the travel market by adding women’s and men’s apparel, separates, accessories and shoes. This tenant is a JV partnership between Genesco, a former tenant of SFO, and 20% ownership by ACDBE partner Corliss Stone Littles, who operates the Sunglass Hut stores at SFO and is a partner on L’Occitane which is set to open in Harvey Milk Terminal 1 next week.

   Lease #12 is for a bookstore, and the award is recommended to HG SFO Retailers 2017 JV for Green Apple Books – a well-known San Francisco concept. Green Apple Books opened in 1975 and is a San Francisco Legacy Business. The ownership here is 80% Hudson Group (a large airport retailer the Airport is already doing business with) and two ACDBE partners, each with 10% ownership. One is local, and one is from Los Angeles. The lease terms are all 12 years. Rent is the greater of Minimum Annual Guarantees which were proposed by the proposers or percentage rent as set by the Airport.

   Vice President Johns asked about the Green Apple Books contract and Green Apple’s specific role. Ms. Nashir responded that it is a license arrangement. Green Apple Books is not one of the owners but will be paid a licensing fee. It will also be involved in design and merchandising in order to protect the integrity of its brand. Licensee partners are usually present on a monthly basis. This something we ask the owners to ensure when they have license deals. Vice President Johns asked if it’s the Airport’s first contract with Green Apple. Ms. Nashir confirmed it is.
There were no further questions from Commissioners and no public comment.

Item No. 4 was approved unanimously by a motion by Commissioner Johns and a second by Commissioner Guggenhime.

4. **Award of the Harvey Milk Terminal 1 Airport Lounge Lease to ALD Development Corporation dba Airport Dimensions**

   No. 20-0048. Resolution awarding the Harvey Milk Terminal 1 Airport Lounge Lease, and directing the Commission Secretary to request approval of the Lease from the Board of Supervisors.

   **Cheryl Nashir, Acting Chief Business and Finance Officer** presented on the item for approval to award the Airport Lounge Lease in Harvey Milk Terminal 1. The award is recommended to ALD Development Corporation doing business as Airport Dimensions. Airport Dimensions will call its operation at SFO “The Club at SFO,” With Airport Commission prior authorization, Staff conducted an RFP process for an Airport Lounge in Harvey Milk Terminal 1. Two proposals were received by the specified submittal date. The evaluation panel scored Airport Dimensions as the highest responsive and responsible proposer. Their business model is a pay-per-visit arrangement or a club membership. Airport Dimensions operates 24 clubs around the globe including at Atlanta Hartsfield-Jackson, Dallas/Ft. Worth, Miami, and London’s Heathrow and Gatwick Airports. Their services will include concierge services, fitness, spa treatments, showers, resting area, a children’s room, and food and beverage. They have partnered with local non-profit “La Cocina” for monthly catering events. The lease term is 12 years with 2 one-year options to extend. Consistent with the airline lounges, rent is simply set at a dollar per square foot rate and adjusted annually. Starting rent for the Airport Dimensions Lounge is $3.1 million per year. Location is in the Mezzanine, which is a very prime location. This lease will require Board of Supervisors approval.

   There were no questions from the Commissioners.

   **Nancy J. Knipp**, President of Airport Dimensions Americas, submitted a comment in writing in support of the item.

Item No. 5 was approved unanimously by a motion by Commissioner Guggenhime and a second by Commissioner Johns.

5. **Award of the Terminal 2 Bookstore Lease to Books, Inc.**

   No. 20-0049. Resolution awarding the Terminal 2 Bookstore Lease to Books, Inc., and directing the Commission Secretary to request approval of the Lease from the Board of Supervisors.
Cheryl Nashir, Acting Chief Business and Finance Officer presented on the item for approval to award the Terminal 2 Bookstore Lease to the incumbent – Books Inc. with the concept Compass Books. The company was the sole proposer. Compass Books has operated at SFO since 1995 and has 11 local locations including San Francisco, Berkeley, Alameda, Palo Alto and others. It has been in the Terminal 2 location since T2 opened in April 2011. It also has a location in Terminal 3, right across from the main security checkpoint. Compass Books is a locally owned company. The lease term is 10 years. As annual rent, Compass Books will pay the greater of a Minimum Annual Guarantee of $220,000 or tiered percentage rent – 8% for sales to $2 million and 10% for sales over $2 million. This lease also requires the Board of Supervisors’ approval.

There were no questions from the Commissioners or public comment.

Item No. 6 was approved unanimously by a motion by Commissioner Guggenhime and a second by Commissioner Johns.

6. **Award of the Terminal 3 Boarding Area E Pop-Up Retail Program Lease - Space 1**

Merchandising America, Inc. dba PACK-N-GO

No. 20-0050. Resolution awarding the Terminal 3 Boarding Area E Pop-Up Retail Program Lease – Space 1 to Merchandising America, Inc. dba PACK-N-GO.

Cheryl Nashir, Acting Chief Business and Finance Officer presented on the item for approval to award one Terminal 3 Boarding Area E pop-up retail lease. With Airport Commission approval, Staff issued an RFP in September for two opportunities. The stores are side-by-side in Boarding Area E. Staff received two proposals by the scheduled due date. One proposal had to be disqualified as it exceeded the size standard for a pop-up lease. Airport criteria states that annual sales cannot exceed $3 million for all the businesses owned by the proposer.

The sole proposal scored and deemed responsible and responsive was from Merchandising America, Inc. Its concept is called Pack-N-Go. It will be a travel merchandise-related store selling luggage, backpacks, bags, travel accessories, pillows, blankets, windbreakers and so forth. The owner is a former employee of a former retailer at SFO called Pacific Outfitters. She is a local resident and ACDBE certified, and this will be her first retail endeavor as an owner. The term is two years, and rent is $27,000 per year or 8% of gross revenues. She will also pay an improvement reimbursement fee to the Airport equaling $20,523 per year in reflection of the investment SFO made in the store.

Commissioner Guggenhime commented that the score was in the 77 area and asked if that was acceptable. Ms. Nashir commented that it was lower than what RDM typically sees. However, Staff know the woman and will work with her on

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merchandising, which they have done with other pop-up tenants. RDM is fortunate to have staff who were general managers of big box stores or airport locations. The owner also has experience with Pacific Outfitters. The low score may have reflected a lack of sophistication with putting together a proposal.

There were no further questions from the Commissioners.

Becky Zhou, Merchandising America, Inc., submitted a comment in writing in support of the item.

Carlton Gill, Merchandising America, Inc., submitted a comment in writing in support of the item.

Item No. 7 was approved unanimously by a motion by Commissioner Johns and a second by Commissioner Guggenhime.

7. **Approval of Amendment No. 1 to the International Terminal Duty Free and Luxury Stores Lease No. 17-0303**

DFS Group, L.P.

No. 20-0051. Resolution approving Amendment No. 1 to the International Terminal Duty Free and Luxury Stores Lease No. 17-0303 with DFS Group, L.P., and recommending the Board of Supervisors approve Amendment No. 1, lowering rent during the first Lease year.

Cheryl Nashir, Acting Chief Business and Finance Officer presented on the item for approval for Amendment No. 1 to the DFS Group Duty Free lease. This lease was awarded in 2017 and includes 16 locations. The tenant is a partnership between DFS Group with 75% ownership and five 5% ACDBE partners. Four are local, and one is from Los Angeles. The tenant had a Development Period during which stores are renovated, construction is phased, and rent is held at 30% of gross revenues. There is no Minimum Annual Guarantee. The Development Period ends on March 31, and the base 14-year term starts. Full rent also starts. They have a $42 million Minimum Annual Guarantee and a percentage rent structure of 45.8% of sales up to $100 million and then two more tiers (41.8% and 30%). Sales for this first lease year – which is technically the nine-month period from April 1 to December 2020 - will be significantly less than that forecasted by both the Airport and DFS. During this initial nine-month period, it is estimated that losses to DFS would be $15 million (perhaps above $20 million) or more and losses of $1.5 million or more for each of the five joint venture partners because they are 5% full owners. By altering the rent structure for the first lease year to be 33% of gross revenues with no Minimum Annual Guarantee, losses are greatly reduced for DFS and, more significantly, for its five 5% partners.

With the Shelter-in-Place order which commenced today, DFS will be closing their stores. Their sales for the remainder of the year will be even lower. Staff will also be suspending rent for a period and feel it is still worthwhile to go forward with this
Amendment, nonetheless. The full rent structure with the $42 million MAG and high percentage rents will be even more unsound based on what is currently happening. Before that closure, their base rent structure would represent 64% of their gross sales through the end of the year. Now, it will be quite a bit higher, and it does not appear to be tenable. Staff are asking for authorization to set DFS’ rent for the first lease year at 33% of gross revenues. This amendment will also require approval from the Board of Supervisors.

**Vice President Johns** asked for clarification on the fee structure. **Ms. Nashir** confirmed there will be no MAG, and the rent will be 33% of gross revenues for the first year. **Vice President Johns** asked if this is the first official movement in response to the crisis and if this will have a precedence going forward. **Ms. Nashir** responded that this recommendation was formulated 30 days ago, and Staff have been talking about it internally for months. Duty Free sales were down significantly starting last Fall due to Chinese currency value and the actions China is taking in allowing more Duty Free purchases to be made in the country upon arrival. Staff has viewed it as a temporary condition that might change as global economic conditions evolve. It is not specifically related to COVID-19, although it exacerbated it.

There were no further questions from the Commissioner or public comment.

Items 8 and 9 were called together.

Items No. 8 and 9 were approved unanimously by a motion by Commissioner Johns and a second by Commissioner Yeung.

8. **Determination to Proceed with the Taxiway B5 Rehabilitation Project and Authorization to Advertise for Bids for Contract No. 11100.61, Construction Services for the Taxiway B5 Rehabilitation Project**

   No. 20-0052. Resolution determining to proceed with the Taxiway B5 Rehabilitation Project; approving the scope, budget, and schedule for Contract No. 11100.61, Construction Services for the Taxiway B5 Rehabilitation Project; and authorizing the Airport Director to advertise for bids.

   This action constitutes the Approval Action for the Taxiway B5 Rehabilitation Project for the purposes of the California Environmental Quality Act, pursuant to Section 31.04(h) of the San Francisco Administrative Code.

9. **Authorization to Accept and Expend Federal Aviation Administration Grant Funds for an Airfield Improvement Project**

   **$7,500,000**
Resolution authorizing the acceptance and expenditure of Federal Aviation Administration Grant Funds in the amount of $7,500,000, plus additional amounts up to 15% of the original grant amount that may be offered for an Airfield Improvement Project.

Geoff Neumayr, Chief Development Officer presented on item 8 for approval to proceed with the scope, budget and schedule and authorized a call for bids for construction services for the Taxiway B5 Rehabilitation Project. The existing sub-surface for the pavement area for the taxiway is not able to support the currently used heavier wide-bodied aircraft. Recently, pavement failures on the taxiways have indicated sub-surface failure. These repairs lead to unanticipated taxiway closures and pose a safety and operational issue if they continue to have failures resulting from inefficient sub-surface. This project will replace the sub-surface under the taxiway and adjacent intersecting taxiways in its entirety with the more substantial sub-surface capable of supporting larger aircraft. The taxiway will then be repaved, and new lights will be installed in the repaired taxiway. Staff has worked closely with the FAA to develop closure-phasing plans that will minimize impacts to operations and maintain all required safety protocols. The engineering assessment for this project is between $6.1 million and $7.5 million with an estimated contract schedule of 155 consecutive days. The SF Planning Department has determined the project is categorically exempt from the California Environmental Quality Act as a Class 1 exemption. This project is eligible for FAA Airport Improvement Program grant funding up to 75% of the allowable costs of this project. Because this contract will have federal dollars, the provisions of the Federal Disadvantaged Program will apply. Although there is no specific DBE participation goal, Staff will encourage an Airport-established DBE participation goal of 10.6% and will encourage all bidders to utilize certified DBE firms to meet this goal.

Commissioner Guggenhime asked about the duration of the project and its impact on traffic. Mr. Neumayr said it will tentatively go out to bid on April 1st, and construction would start three months later. When construction starts, the closure of the taxiway would be around 155 days. It is not a runway closure but a phasing where planes take different directions into the gates. There are protocols in place to make that work.

Kevin Kone, Managing Director of Finance presented on item 9 to accept and expend grant funds from the FAA in the amount of $7.5 million for the Taxiway B5 Rehabilitation Project. AIP grants are contingent upon funding availability and are offered on short notice. An advance Commission approval positions the Airport to accept the grant offer(s) within the timeframe determined by the FAA. If the Airport Commission approves accepting and expending these grants, and if offered the grant by the FAA, Staff will seek Board of Supervisors approval, which is required by the Administrative Code.

There were no further questions from the Commissioners and no public comment.

Items 10 and 11 were called together.
Items No. 10 and 11 was approved unanimously by a motion by Commissioner Guggenheimer and a second by Commissioner Johns.

10. **Authorization to Accept and Expend Federal Aviation Administration Grant Funds for the Continuation and Expansion of the Noise Insulation Program**

   **$7,000,000**

   No. 20-0054. Resolution authorizing the acceptance and expenditure of Federal Aviation Administration Grant Funds for the continuation and expansion of the Noise Insulation Program in the amount of $7,000,000, plus additional amounts up to 15% of the original grant amount that may be offered.

11. **Authorization for Modification No. 2 to Contract No. 50106 for Noise Insulation Consulting Services and to Exercise the Second 1-Year Option and Increase the Contract Amount**

   **The Jones Payne Group, Inc.**

   **$2,500,000**

   No. 20-0055. Resolution approving Modification No. 2 to Contract No. 50106 with The Jones Payne Group, Inc., for Noise Insulation Consulting Services, to exercise the second of two 1-year options, and increase the Contract amount by $2,500,000, for a new not-to-exceed Contract amount of $9,800,000.

   **Kevin Kone, Managing Director of Finance** presented on the items 10 and 11 for approval to support a concerted effort to provide faster noise insulation for eligible homes in the community. Item 10 requests authorization to accept and expend another FAA grant in the amount of $7 million for the Noise Insulation Program. This grant falls under the Replacement and Second Chance Acoustic Treatment Initiatives that the Airport Commission approved on October 3, 2017. This grant will cover 80% of the allowable noise insulation cost, and the Airport Operating Budget will make up the difference. If the Airport Commission approves accepting and expending this grant, and if offered by the FAA, Staff will seek Board of Supervisors approval, which is required by the Administrative Code.

   Item 11 is a companion item to the grant item. This item is to request approval to exercise the second and final one-year option of the contract and to increase the contract amount by $2.5 million for the Jones Payne Group. The Jones Payne Group organization implements all aspects of SFO’s Noise Insulation Program with eligible communities. Most of the funding for this increase will be covered by the $7 million grant that was previously presented. The increased contract amount will allow Staff to speed up insulation installations in the next three to four years from 65-80 homes to 145-180 homes. The Jones Payne Group will increase staffing from eight full-time equivalents to 14 to increase production.
There were no questions from Commissioners and no public comment.

H. CONSENT CALENDAR OF ROUTINE ADMINISTRATIVE MATTERS

The Consent Calendar, Item Nos. 12 through 16, was approved unanimously upon a motion by Commissioner Johns and a second by Commissioner Yeung.

12. **Award of Sole Source Contract No. 50224, Support and Maintenance Services for the Airfield Lighting Control Monitoring System Maintenance and Support Services Project**
   
   **Global Access Supply Inc.**
   
   $454,691


13. **Authorization to Issue a Request for Proposals for Contract No. 50254, Airport Safety and Security Systems Master Integrator Services**

   No. 20-0057. Resolution authorizing the issuance of a Request for Proposals for Contract No. 50254, Airport Safety and Security Systems Master Integrator Services, and negotiation with the highest ranked proposer.

14. **Approval of Modification No. 3 to Professional Services Contract No. 50097, Concessions Planning and Retail Industry Research Services**
   
   **ICF Resources, LLC**
   
   $400,000

   No. 20-0058. Resolution approving Modification No. 3 to Professional Services Contract No. 50097, Concessions Planning and Retail Industry Research Services, with ICF Resources, LLC, to exercise the one 2-year option to extend the Contract term through September 14, 2022, and increase the Contract amount by $400,000 for a new total not-to-exceed amount of $850,000.

15. **Authorization to Issue Request for Proposals No. 50246, Trustee and Issuing and Paying Agent Services to Support the Commission’s Commercial Paper Program**
No. 20-0059. Resolution authorizing the issuance of Request for Proposals No. 50246 for Trustee and Issuing and Paying Agent Services to support the Commission’s Commercial Paper Program.

16. **Exercise of the One 2-Year Option to Extend the Lease Term of the Terminal 3 Specialty Retail Store Lease A, Lease No. 15-0039**
   **WDFG North America, LLC**

No. 20-0060. Resolution exercising the one 2-year option to extend the lease term of the Terminal 3 Specialty Retail Store Lease A, Lease No. 15-0039 with WDFG North America, LLC, for an option term of November 18, 2020 through November 17, 2022.

**Vice President Johns** asked why the Airport is choosing to exercise the extension instead of going out for re-bid. **Ms. Nashir** confirmed that it is something the Airport normally does. Staff have had a hard time leasing specialty retail, and they are happy with the current vendor which houses Jo Malone, Tom Ford and Aveda.

There were no further questions from Commissioners and no public comment.

I. **NEW BUSINESS:**
   There was no Public Comment.

J. **CORRESPONDENCE:**
   There was no discussion by the Commission.

K. **CLOSED SESSION:**
   The Airport Commission went into closed session at 10:24 AM. The closed session ended at 10:50 AM.

   **CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION**

   (a) Public comment on all matters pertaining to this agenda item.

   There was no public comment.

   (b) Discussion and vote in open session pursuant to the Brown Act (California Government Code §54956.9) and the Sunshine Ordinance (San Francisco Administrative Code §67.10(d)) on whether to invoke the attorney-client privilege and conduct a closed session to confer with legal counsel. ACTION ITEM.
The Airport Commission voted unanimously upon a motion by Commissioner Guggenhime and a second by Commissioner Johns to invoke the attorney-client privilege and conduct a closed session to confer with legal counsel.

(c) [PROSPECTIVE CLOSED SESSION]

CONFERENCE WITH LEGAL COUNSEL regarding existing litigation (Government Code §54956.9(a), San Francisco Administrative Code §67.10(d)(1)): The Hertz Corporation; Enterprise Rent-A-Car Co. of San Francisco, LLC; and Avis Budget Car Rental, LLC v. City and County of San Francisco, et al., and Sixt Rent A Car LLC v. City and County of San Francisco, et al. [consolidated actions], San Mateo County Superior Court, Case No. 19-CIV-05663, filed September 25, 2019. Discussion of proposed settlement and resolution recommending approval by the Board of Supervisors. Proposed material terms of the potential settlement which, if approved by the Airport Commission, would be subject to final approval by the Board of Supervisors: the Airport Commission would proceed to seek Board of Supervisors approval of the leases awarded to plaintiffs on October 16, 2018, in conformance with Charter § 9.118; the Airport Commission would pay Sixt Rent A Car $500,000 in damages; the parties would bear their own fees and costs; plaintiffs would dismiss their actions; and the parties would enter a mutual release. ACTION ITEM.

(d) [RECONVENE IN OPEN SESSION]

(1) Discussion and vote whether to disclose any or all discussions held in closed session (San Francisco Administrative Code §67.12(a)). ACTION ITEM.

The Airport Commission voted 3-0 not to disclose the nature of the discussion in closed session. Commissioner Guggenhime’s phone line was dropped from the teleconference and did not vote.

(2) Report on action taken in closed session required by the Brown Act (Government Code §54957.1(a)) and the Sunshine Ordinance (San Francisco Administrative Code §67.12(b)). ACTION ITEM.

The Commission will recommend the proposed settlement to the Board of Supervisors for approval.

L. ADJOURNMENT:
There being no further calendared business before the Commission, the meeting adjourned at 10:52 A.M.

(Original signed by: C. Corina Monzón)
C. Corina Monzón
Airport Commission Secretary
March 17, 2020

Airport Commission
San Francisco International Airport
PO Box 8097
San Francisco, CA 94128

Dear Commissioners:

On behalf of Airport Dimensions, I would like to express our enthusiasm and commitment to delivering the Club SFO, an innovative and luxurious lounge experience for the travelers of Harvey Milk Terminal 1, at San Francisco International Airport.

The Airport Dimensions team took great care to develop a lounge experience with strong connections to the San Francisco region through art, culinary and beverage partnerships underpinned by a commitment to sustainability and environmental stewardship.

The one of a kind Northern California Natural design will offer unique features such as the U.S. first ‘Tunable Light Therapy’ area, a family room with an interactive directional sequin wall, the use of reclaimed wood, carbon neutral material and elimination of single use plastic.

Our partnerships with the non-profit culinary incubator La Cocina, SFMOMA for artwork curations, with local bakery Le Boulanger and with local breweries, distilleries and vineyards establishes the community as the foundation of our guest experience.

Airport Dimensions brings over 14 years of experience and have established ourselves as the U.S. leading provider of shared-use lounges. We operate 24 lounges globally with plans to expand our network to Asia and the Middle East in the coming year.

We also bring the world’s largest lounge membership audience, Priority Pass, to Harvey Milk International Airport. With well over 20 million members representing every major credit card, our guests represent frequent travelers from around the globe. Together with our global lounge management partner, Sodexo, we provide a lounge experience for over 40 airlines.

Thank you for placing your trust in Airport Dimensions. We are honored to have been selected as the lounge operator for your shared-use lounge at Harvey Milk Terminal 1. We look forward to working together with the San Francisco International Airport Team to bring this exclusively tailored lounge to your travelers.

Sincerely,

Nancy J Knipp,
PresidentAirport Dimensions Americas

CC. Cheryl Nashir, Director, Revenue Development and Management
Leo Fermin, Chief Business and Finance Office
Hello, my name is Becky Zhou and I am the owner of Merchandising America with the Pack-N-Go concept. I would like to thank all of the Commissioners and the staff at Revenue Development for this opportunity to work with you to serve our passengers at the San Francisco Airport. I am a very happy ACDBE, and I promise you I will work extra hard to make you happy as well. Thank you again for this opportunity. I really appreciate it.
Hello my name is Carlton Gill and I work for Ms. Zhou at Merchandising America. I want to let the Commissioners know how helpful the Revenue Development department has been throughout this process, and it is an encouragement to me to be able to work with people like Cheryl Nashir and Obinna Onyenedum, who were always responsive to our many questions. It feels really good to be in partnership with the San Francisco airport in this way. So thank you, and we look forward to working with you and to developing our continued relationship. Have a great day.