



City of Santa Barbara
Airport Department

Meeting: 04/19/17
Agenda Item No. 15

DATE: April 19, 2017
TO: Airport Commission
FROM: Hazel Johns, Airport Director
SUBJECT: Lease Amendment - First Class Concessions

RECOMMENDATION:

That Commission recommend that the City Council approve and authorize the Airport Director to execute a proposed second amendment to Concession Agreement 23,445 with First Class Concessions, a California Corporation, amending the "Term" and "Mid-Term Refurnishment" provisions to extend the expiration by five (5) years to August 31, 2026, and add a requirement for rebranding of the Airline Terminal full-service restaurant at Santa Barbara Airport.

DISCUSSION:

First Class Concessions was selected by a competitive solicitation to operate food and beverage concessions in the new Airline Terminal. On June 15, 2010, Council approved a ten-year Agreement based on the proposal submitted in the solicitation process. The company has three locations in the Airport, all of which opened in conjunction with the Terminal opening in August 2011. The company is a small, minority-owned Airport Concessions Disadvantaged Business Enterprise (ACDBE), based in San Diego, California. The company specializes in operating concessions in small to mid-size airports around the U.S.

Initially, the company operated one post-security full-service restaurant and an adjacent Coffee Bean & Tea Leaf (CBTL) location, as well as a pre-security Coffee Bean & Tea Leaf location. Soon after opening, the Airport and the concessionaire discovered that passengers were seeking a broader menu offering, including beer and wine, in the pre-security location. The CBTL brand could not accommodate this type of offering. The Airport and First Class Concessions agreed that the concessionaire would re-invest in the premises to remodel and rebrand the pre-security location. The new concession, Mission Cafe, opened in November 2014.

From a customer service perspective, the change was very successful. Sales of food and beverages, including alcoholic beverages, increased significantly, which in turn drives more concession revenue to the Airport as a percentage of sales. However, the investment by the concessionaire was significant and the cost of amortizing that investment was not offset by the increase in revenue.

Under the current agreement, the concessionaire will have eight (8) years to fully amortize the investment, rather than the full ten years of the Agreement.

The concessionaire approached the Airport with a request to extend the term of the Agreement. Airport staff conducted a pro forma analysis based on actual sales history, projected sales trends, labor costs, cost of goods sold, taxes and amortization, etc. to determine a reasonable level of profit for the concessionaire over the term of the Agreement. Staff found that an extension of the Agreement was justified in light of the additional investment.

In negotiation with First Class Concessions, the Airport also secured a commitment to rebrand the full-service restaurant (Casa Terraza) as part of the amendment. A rebranding of the restaurant benefits the Airport because new or re-concepted concessions are proven to boost sales when passengers see and are curious about a new offering.

The Airport will succeed in offering the traveling public attractive and updated concessions throughout the term of the Agreement with First Class Concessions.

PREPARED BY: Business & Marketing

ATTACHMENT: Draft Lease Amendment

CONCESSION AGREEMENT SECOND AMENDMENT

Agreement No. 23,445

THIS SECOND AMENDMENT TO THE CONCESSION AGREEMENT is made and entered into this _____ day of _____, 2017,

by and between

CITY OF SANTA BARBARA, a Municipal Corporation, hereinafter referred to as the "City";

and

FIRST CLASS CONCESSIONS, INC., a California Corporation, hereinafter referred to as the "Concessionaire."

RECITALS:

WHEREAS, the City is owner of certain property at the Santa Barbara Municipal Airport; and

WHEREAS, the City and the Concessionaire are parties to a Concession Agreement for the operation and management of a Food and Beverage concession at the Santa Barbara Municipal Airport that is effective June 22, 2010 (Concession Agreement No. 23,445) as amended on April 21, 2011 (No. 23,445.1) in the Airline Terminal Building; and

WHEREAS, this Agreement expires on the last day of the month in which the 10-year anniversary of the commencement of the Primary Term occurs, understood as August 31, 2021; and

WHEREAS, the City desires to maintain high quality and readily available Food and Beverage services to the traveling public both in secure and non-secure areas; and

WHEREAS, the City benefited from additional capital investments to the Premises in the Airline Terminal Building requested by the City, agreed to by the Concessionaire, and completed at the Concessionaire's sole cost and expense in 2013;

WHEREAS, City seeks further refurbishment and re-concept of the Terminal's full service dining establishment; and

WHEREAS, the City, in response to a Federal Aviation Administration audit of Americans with Disabilities Act compliance, must require additional protections for passengers from discrimination in its Agreements.

NOW, THEREFORE, City and Concessionaire agree to amend said Concession

Agreement, as follows:

1. City and Concessionaire agree to revise Article 1. "DEFINITIONS" Section "W" to read as follows:

DEFINITIONS

W. Primary Term shall mean the Commencement Date and, unless sooner terminated or extended in accordance with the terms and conditions of the Agreement, shall expire as set forth below in Article 6., Section C.

2. City and Concessionaire agree to revise Article 6. "TERM" Section "C" to read as follows:

TERM

C. Primary Term. The Primary Term of this Concession Agreement will be fifteen (15) years, commencing September 1, 2011 and ending August 31, 2026, at 11: 59 p.m. PST.

3. City and Concessionaire agree to revise Article 7 "MIDTERM REFURBISHMENT" to read as follows:

MID-TERM REFURBISHMENT

Concessionaire shall perform a mid-Primary term refurbishment. The mid-Primary term refurbishment minimum investment amount shall be determined and approved by the City at the discretion of the Airport Director upon inspection of the Premises, but in no event shall the amount exceed \$50 per square foot per concession of the Leased Premises. This is a firm commitment to reinvest in the Leased Premises and replace worn and damaged finishes. The refurbishment minimum is not for ordinary or deferred maintenance, which is an ongoing requirement, but a commitment to renew and replace worn surfaces such that it would constitute additional capital investment.

The pre-security ticketing level portion of the Premises, operating as "La Mission Café" is excluded from the mid-term refurbishment requirement as a result of its redevelopment in 2013. The Concessionaire is expected to perform customary maintenance and repair of these premises as may be directed by the Airport Director.

The refurbishment requirement, which is an obligation to be satisfied during the **eighth** year of the Primary Term, is subject to prior consultation and approval by the City, and shall be in conformance with the Concessions Design Standards, as may be modified from time to time.

Upon the eighth year of the Primary Term, in addition to the midterm refurbishment requirement specifically for the portion of the Premises operated as full-service dining, the

City and Concessionaire agree to a rebranding of the current concept with appropriate modifications to signage, fixtures and menus with the intent to maintain a like-quality and service offering to the traveling public. Tables and seating will be replaced and conform to requirements of the Americans with Disabilities Act (ADA) for accessibility. The concept and design plan for this rebranding must be approved by the Airport Director, including any incremental cost beyond that required for the midterm refurbishment of the space.

4. City and Concessionaire agree to revise Article 33 “FEDERAL AVIATION REQUIREMENTS” Section “B” to read as follows:

FEDERAL AVIATION REQUIREMENTS

B. Discrimination prohibited. Concessionaire for itself, its personal representatives, successors in interest, and assigns, as a part of the consideration hereof, does hereby covenant and agree that: (1) no person on the grounds of race, color, national origin or disability shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of the facilities, (2) the Premises will be readily accessible to and usable by individuals with disabilities, including individuals in wheelchairs, and 3) Concessionaire employees will be trained sufficiently to be able to refer individuals who wish to file a discrimination complaint to posted placards with information regarding how to file a complaint.

Concessionaire further agrees to use the premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Chapter A, Part 21, Part 23 and 26 regarding Nondiscrimination in programs receiving Federal assistance, and the Regulations as may be amended.

5. The City and Lessee agree that, except as amended by this Amendment, all terms and conditions of Concession Agreement No. 23,445, as amended, shall remain in full force and effect, and that the provisions of this Amendment shall become a part of the Lease Agreement as if fully written therein.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first written above.

**CITY OF SANTA BARBARA
A Municipal Corporation**

Risk Manager
Mark Howard

Hazel Johns
Airport Director

**FIRST CLASS CONCESSIONS, INC.,
A California Corporation**

ATTEST:

Tasneem Vakharia
President and CEO

Sarah Gorman
City Clerk Services Manager

First Class Concessions, Inc.
11650 Iberia Place, Suite 201
San Diego, CA 92128
(858) 487-8984

APPROVED AS TO CONTENT:

Deanna Zachrisson
Airport Business Development Manager

APPROVED AS TO FORM:

Tava Ostrenger
Assistant City Attorney

BUSINESS TAX COMPLIANCE:
Certificate No. _____

By _____

APPROVED AS TO INSURANCE: