

SENT TO COUNCIL:

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FEB - 8 2011
City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

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

SUBJECT: OPERATION OF TERMINAL A+ AT
MINETA SAN JOSE INTERNATIONAL
AIRPORT

DATE: February 8, 2011

Approved

Date 2/8/11

INFORMATION

DISCUSSION

The current economic recession has had a significant adverse impact on passenger activity at Mineta San Jose International Airport (SJC) over the past three years. Despite slight year-over-year improvements in passenger activity over the past four months, SJC has seen an overall 25% decline in passenger activity and a 33% reduction in the number of commercial flights since 2007. This decline has affected all aspects of Airport operations and revenues, including the more than forty new food & beverage and retail concessions, as well as the advertising concession, now operating in the recently modernized airport.

When the new concessions program was launched in 2008 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. Instead of growth, however, the recession has brought reductions that have resulted in much lower sales and revenues at the concessions than originally projected.

In order to assist the concessions and to better align the Airport's facilities with its current level of traffic, the Airport recently considered the possibility of temporarily closing the northern portion of Terminal A. Referred to as Terminal A+, it was originally built by American Airlines when that carrier was the dominant airline at SJC. It has eight gates at the northern end of Terminal A that currently serve American, Hawaiian, and JetBlue airlines. Because it was built as a separate building, Terminal A + is the only section of the facilities that could readily be closed off without substantially affecting other terminal operations and tenants.

The principal goal of moving Terminal A+ airlines to the central part of Terminal A and the International Arrivals Building would be to concentrate passengers near more shops and restaurants rather than spreading customers throughout the entire terminal. This would improve sales for the concessions located in the remainder of the Airport, and it also could improve traveler convenience by reducing the length of the walk to reach the northernmost gates in the

terminal. Closure would stay in effect until passenger and flight activity increases sufficiently to warrant the re-opening of the eight Terminal A+ gates. Although the Airport estimated it might realize modest operational savings of about \$50,000 a year by closing Terminal A+, closure would also reduce the Airport's minimum annual guarantee (MAG) revenues from master concessionaire HMS Host by about \$355,000 a year during the closure period.

As the Airport explored this alternative, staff started consulting with concession operators and other tenants with a presence in Terminal A+ to inform them of this concept and get their feedback and consent to the potential closure and subsequent moves to new locations. These tenants include Host (which has Chiaramonte's Deli and a Sunset News stand in Terminal A+), U.S. Bank (with an ATM), Clear Channel (advertising sites), and all airlines in Terminal A and Terminal A+. In order to implement closure, the Airport's concession contract with Host would require an amendment approved by the City Council. Contracts with the other tenants most likely would not have required amendments because of their smaller size or because the contracts allow the Airport to make such changes.

Host responded that it preferred keeping Terminal A+ open and did not want close its two concessions there at this time, despite the weakness in traffic and the potential benefits to its other concession operations in the balance of Terminal A. Accordingly, the Airport will not proceed with the closure of Terminal A+, and the airlines and other tenants will remain in their current locations.

Notwithstanding this decision to keep Terminal A+ open, staff remains very sensitive to the economic challenges currently being faced by its concession partners throughout the Airport. The three master concessionaires and their subcontractors, licensees and sub-tenants continue to operate in a very challenging retail environment as a direct result of the current economy and the reduced number of flights and passenger activity levels.

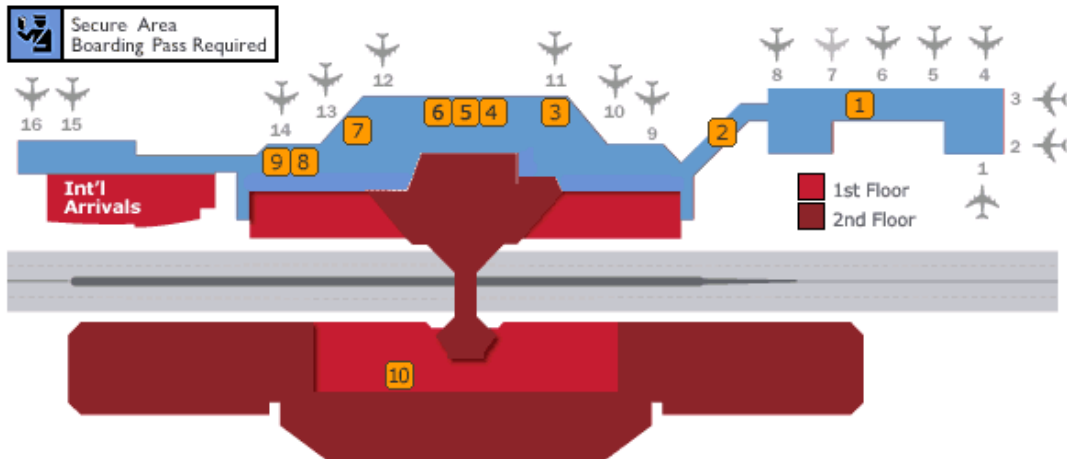
Staff will continue to work closely with its concessionaires and continue to explore alternatives that might help to increase traffic and economic activity. The best solution, however, remains the restoration of flights by carriers and the growth of passenger traffic at SJC that will support concessions and increase Airport revenues in general. The ongoing commitment by the Airport and the City Council to keep SJC competitive and attractive to airlines remains essential to achieve this goal to retain and attract more flights and carriers.

/s/
WILLIAM F. SHERRY, A.A.E.
Director of Aviation

Please direct questions to William Sherry, Director of Aviation, at (408) 392-3611.

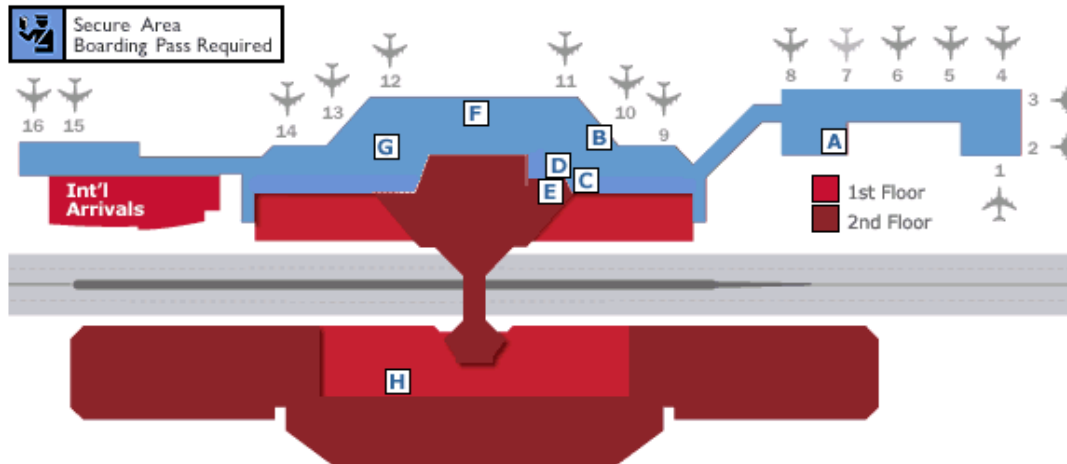
Attachment: Terminal A Layout

Terminal A and Terminal A+ Concessions



Food & Beverage

- | | |
|----------------------|----------------------|
| 1. Chiamonte'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

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|---------------------------------------|----------------------------|
| 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 | |