

SENT TO COUNCIL:

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NOV - 9 2011
City Manager's Office

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

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

**SUBJECT: RESPONSE TO COUNCIL
REFERRAL 10-25-11-2.7
REGARDING CLEAR
CHANNEL**

DATE: November 7, 2011

Approved

Date

11/9/11

INFORMATION

During the October 25, 2011 Council Meeting, Councilmember Rocha asked the Airport Staff for information on the timing of the negotiations with Clear Channel Advertising and how often the Airport staff is meeting with them.

The Clear Channel 3rd Amendment was dropped from the Council Agenda due to receipt of Clear Channel's October 14 letter that again requested to restructure the Agreement and reduce the Minimum Annual Guarantee (MAG) even further than we already have. The City has provided Clear Channel with \$4,297,349 in financial relief and we offered to provide an additional \$296,000 in savings by consolidating their capital investment requirements and offering them free office space that would normally carry a charge of \$64,879 per year. It's important to note that Clear Channel set their financial responsibilities under this contract through a bidding process, fully aware of the business risks. In other words, it was not the City that set the MAG and other financial requirements but, rather, Clear Channel. Additionally, as a self-sufficient enterprise operation, the Airport would have to shift any further financial relief granted to Clear Channel to other airport tenants, something staff believes is not appropriate given the circumstances.

During the negotiations with Clear Channel, the parties (Clear Channel and Airport staff) agreed to these concessions on the belief that Clear Channel was satisfied with them and would not seek further reductions. After receiving Clear Channel's October 14 letter it became clear that was not the case. We have written a response to Clear Channel explaining our position.

Staff is in regular contact with Clear Channel. Clear Channel typically comes to the Airport a couple of times a year to meet in person to discuss their concerns with the MAG and request

HONORABLE MAYOR AND CITY COUNCIL

November 7, 2011

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financial relief. The last meeting was on March 9, 2011. We are certainly available to meet more frequently, but this is all that Clear Channel has requested. We have always had an open dialog and will continue to do so.

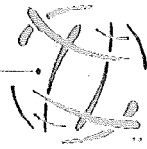
/s/

William F. Sherry, A.A.E.
Director of Aviation

For questions, please contact Kim Aguirre at 408-392-3620.

Attachments: Letter to Clear Channel dated November 4, 2011
Letter from Clear channel dated October 14, 2011

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT



SILICON VALLEY'S AIRPORT

November 4, 2011

Toby Sturek
President
Clear Channel Airports
4635 Crackersport Road
Allentown, PA 18104

Dear Toby:

In response to your letter dated October 14, 2011, in which you again requested to restructure our agreement, I simply cannot provide you with additional financial relief. I believe that I have addressed your concerns in my previous letter to you dated August 3, 2011, but I want to respond to your latest letter.

The current economic state of this country has been a surprise to most observers and the result at SJC has been reduced flights and passengers. This has impacted the bottom line of concessionaires and the Airport. The Airport has taken drastic steps by cutting its staff in half and requiring that remaining employees take significant reductions in pay. We are not in a position to provide you with additional financial relief.

Please remember that the Airport has already provided Clear Channel with \$4,297,349 in financial relief and the City has offered to provide you with an additional \$296,000 in savings by consolidating your capital investment requirements and providing you with office space free of charge that would normally rent for \$64,879 per year. This is contingent on you not pursuing any further MAG reduction. This will bring your total financial relief to almost \$5 million, a significant amount that the Airport was not obligated to offer and much greater than any temporary relief provided to the food & beverage and retail concessionaires in Terminal A+.

The City has provided Clear Channel with premium advertising sites, many of which remain undeveloped and underutilized. In addition, we amended the agreement to provide Clear Channel with new advertising sites without a corresponding increase in MAG and without a minimum capital investment requirement. We believe that these additional sites are more than adequate to compensate Clear Channel for any lost advertising opportunities that may have resulted from the temporary inactivation of the six gates in Terminal A+, and we hope that you will take advantage of these opportunities.

November 3, 2011

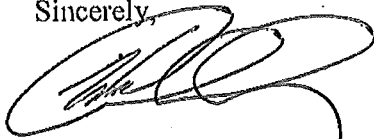
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The current gate capacity in Terminal A+ will allow for expansion by existing airlines and provide space for new and relocated airlines. Due to the growth of Alaska Airlines, and the unbalanced passenger traffic between the terminals, I expect that Delta Airlines will relocate to Terminal A+ in the next few months. Based on the previous 12 months, that will bring an additional 460,000 total passengers to Terminal A+ when combining Delta Airlines and its affiliates.

While the closure of the American Airlines lounge was disappointing to both you and the Airport, the lounge is not a condition of our agreement. However, you should be aware that we have begun working with an architect to design a new common use lounge. In addition, one existing domestic airline and one potential international airline have expressed interest in exclusive lounges of their own.

As always, thank you for your continued understanding and cooperation. Should you have any questions or would like to discuss these issues further, please feel free to contact me.

Sincerely,



William F. Sherry
Director of Aviation

Cc: Mayor Chuck Reed
City Council
Kim Aguirre



4635 Crackersport Road, Allentown, PA 18104
T 610.395.8002 Toll Free 800.628.6800 F 610.395.4450

October 14, 2011

Mr. Bill Sherry
Director of Aviation
San Jose International Airport
1701 Airport Boulevard, Suite B-1130
San Jose, CA 95110-1206



Dear Bill,

I was disappointed to receive your letter dated August 3, 2011, declining my request to grant Clear Channel Airports (CCA) MAG relief consistent with other concessionaires as a result of the gate closures in terminal A+.

In your letter, you indicate that, unlike HOST, CCA was offered substitute concession space in other locations. Unfortunately, although CCA was offered additional locations, that does not rectify the situation. In fact, what has occurred as a result of the compressed traffic flow is advertisers can now reach the same number of passengers by purchasing less signage. Unlike Food and Beverage concessions, advertising does not take money directly from passengers. Duplicating locations in the same area only cannibalizes existing advertising revenue streams. Additionally, relocating inventory does not resolve the fact that we are expected to continue paying rent in an area that the airport has reduced weekly flights from 147 to 14 or 88%.

In our concession agreement dated July 1, 2007, CCA is contractually obligated to pay a MAG for each individual sign location. If the reduction in flights and closure of gates impact the area of which these signs are located, how can we possibly be expected to pay rent at 100% when traffic has declined 88%? The attached map illustrates the number of advertising locations impacted by the gate closures. In this particular space, CCA pays a total annual lease cost of \$1.2 million. To add to the matter, American Airlines closed their VIP lounge in Terminal A+ and has no plans to relocate this prestigious space. The American Frequent Flyers are a highly sought after demographic which attracts the national advertiser. This area is essential to our sales packaging across all terminals. The loss of this particular space only magnifies our problem beyond the value of the MAG. In fact, the loss of this space impacts our total advertising sales program at SJC.

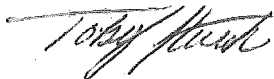
In April 2011, we offered the airport a proposal to restructure the contract that included a \$10 million one-time lump-sum payment. Assuming we were able to restructure the contract under those terms, the closure of gates in terminal A+ would not be an issue. However, that proposal was simply denied. In fact, in both cases, there was no negotiation or dialogue from airport staff as to how a deal could be structured.

Bill, I respectfully request that this matter be seriously considered. I also request that you and your team consider an open dialogue with me to amicably resolve this matter. As proposed in my letter dated July 19, 2011, I am

readily available to meet directly with you and your team to resolve this matter expeditiously.

Thank you in advance for your time and consideration.

Respectfully,



Toby Sturek
President, Clear Channel Airports

cc: Kimberly J. Aguirre, Chief Operating Officer, SJC Airport
Mayor Chuck Reed
Pete Constant, City Council, District 1
Ash Kalra, City Council, District 2
Sam Liccardo, City Council, District 3
Kansen Chu, City Council, District 4
Xavier Campos, City Council, District 5
Pierluigi Oliverio, City Council, District 6
Vice Mayor Madison Nguyen, City Council, District 7
Rose Herrera, City Council, District 8
Donald Rocha, City Council, District 9
Nancy Pyle, City Council, District 10
Jerry Strangis, Strangis Properties