

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 20-0176

APPROVAL OF MODIFICATION NO. 2 TO LEASE NO. GS-09B-03014, WITH THE U.S. GOVERNMENT, TO EXTEND THE TERM OF THE LEASE BY THREE YEARS AND ADJUST THE PREMISES AND ANNUAL RENT, AND DIRECTING THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 2 TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, on August 7, 2012, by Resolution No. 12-0185, the Airport Commission (Commission) approved General Services Administration (GSA) Lease No. GS-09B-03014 (Lease), providing administrative office spaces for the U.S. Transportation Security Administration (TSA) in the International Terminal and Terminal 2; and

WHEREAS, on October 30, 2012, by Resolution No. 399-12, the Board of Supervisors approved the Lease; and

WHEREAS, on September 5, 2017, by Resolution No. 17-0221, the Commission approved Modification No. 1 to the Lease, extending the term by three years and modifying the annual rent; and

WHEREAS, on February 6, 2018, by Resolution No. 29-18, the Board of Supervisors approved Modification No. 1 to the Lease; and

WHEREAS, the TSA is responsible for ensuring aviation security at all U.S. airports, including San Francisco International Airport; and

WHEREAS, the Lease provides approximately 7,200 square feet of Category II space in the International Terminal (Parcel A) and approximately 1,104 square feet of Category III space in Terminal 2 (Parcel B), which will expire on October 31, 2020; and

WHEREAS, the TSA wishes to extend the Lease term for an additional three-year period and add approximately 0.057 acres of land to the premises for the storage of canine training aids, with a commensurate modification of rent; and

WHEREAS, Airport staff negotiated Modification No. 2 with the GSA, acting on behalf of the TSA, to extend the term of the Lease by three years, modify the annual rent, and expand the premises by approximately 0.057 acres of land; now, therefore, be it

RESOLVED, that the Commission hereby approves Modification No. 2 to Lease No. GS-09B-03014 with the U.S. Government to extend the term of the Lease by three years, effective November 1, 2020, modify the annual rent to \$2,590,866.56, and expand the premises by approximately 0.057 acres of land on the terms and conditions set forth in the Director's Memorandum affixed to this Resolution; and, be it further

RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward Modification No. 2 to the Board of Supervisors for approval under Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of

SEP 15 2020


Secretary



MEMORANDUM

September 15, 2020

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Eleanor Johns, Vice President
Hon. Richard J. Guggenlime
Hon. Everett A. Hewlett, Jr.
Hon. Malcolm Yeung

20-0176
SEP 15 2020

FROM: Airport Director

SUBJECT: Approval of Modification No. 2 to Lease No. GS-09B-03014 with the U.S. Government to Extend the Term and Adjust the Premises and Annual Rent for Spaces Occupied by the U.S. Transportation Security Administration

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 2 TO LEASE NO. GS-09B-03014 WITH THE U.S. GOVERNMENT TO EXTEND THE TERM OF THE LEASE BY THREE YEARS AND ADJUST THE PREMISES AND ANNUAL RENT.

Executive Summary

The U.S. Transportation Security Administration (TSA) currently occupies approximately 8,304 square feet of terminal space at San Francisco International Airport (SFO or Airport) under Lease No. GS-09B-03014 (Office Lease). The Office Lease expires on October 31, 2020.

The TSA separately occupies approximately 0.057 acres of land at Plot 50-DJ (Plot 50-DJ Premises), for the storage of canine training aids, under Lease No. HSTS02-09-A-CAN348 (Canine Lease). The TSA wishes to exercise an early termination option on the Canine Lease and add the Plot 50-DJ Premises into the premises demised under the Office Lease. The proposed Office Lease modification will extend the term by three years and adjust the annual rent to \$2,590,866.56 (Modification).

Background

On August 7, 2012, by Commission Resolution No. 12-0185, the Commission approved the Office Lease, providing administrative office spaces for the TSA in the International Terminal (IT) and Terminal 2 (T2). On October 30, 2012, by Resolution No. 399-12, the Board of Supervisors approved the Office Lease.

On September 5, 2017, by Resolution No. 17-0221, the Commission approved Modification No. 1 to the Office Lease, extending the term to October 31, 2020 (Modification No. 1). On February 6, 2018, by Resolution No. 29-18, the Board of Supervisors approved Modification No. 1.

THIS PRINT COVERS CALENDAR ITEM NO. 13

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR LARRY MAZZOLA PRESIDENT ELEANOR JOHNS VICE PRESIDENT RICHARD J. GUGGENHIME EVERETT A. HEWLETT, JR. MALCOLM YEUNG IVAR C. SATERO AIRPORT DIRECTOR

The Office Lease provides approximately 7,200 square feet of Category II space on the fifth floor of the South Shoulder Building in the IT (Parcel A) and approximately 1,104 square feet of Category III space on the first floor of T2 (Parcel B). The fixed annual rent is \$1,996,111.68.

The Office Lease requires the Airport to provide maintenance, janitorial services, and utilities, including electricity and water. The Airport is reimbursed for the cost of these services by incorporation of an operating cost component into the rental rate, as more fully described below.

On June 16, 2009, by Commission Resolution No. 09-0161, the Commission approved the Canine Lease, which provides approximately 0.057 acres of land for storage of canine training aids at Plot 50-DJ. Expiring on December 31, 2020, the fixed annual rent is \$7,212.00.

Due to budget constraints, the TSA wishes to exercise an existing termination option in the Canine Lease two months prior to the December 31, 2020 expiration date. The TSA then wishes to combine the Canine Lease premises with the premises demised under the Office Lease, which will be extended for three years. The proposed Modification increases the combined fixed annual rent under the Office Lease to \$2,590,866.56. Additional services provided under the Office Lease will not be provided at the Plot 50-DJ Premises. The early termination of the Canine Lease by the TSA does not require the approval of the Commission.

The TSA also wishes to downsize Parcel A in the future, reducing costs and office footprint in the IT. The proposed Modification includes language providing flexibility for the planned adjustments.

Proposal

Airport staff seeks approval of the proposed Modification on the following business terms:

1. **Extension Term.** Three years, one-year firm – TSA will have the option to sign a new lease at the time of its election to decrease space (or adjust premises as described in No. 4 below).
2. **Effective Date.** November 1, 2020.
3. **Premises Expansion.** Add approximately 0.057 acres of land to the Premises; however, such additional premise will not require any Airport services.
4. **Right to Decrease Space.** TSA will have a one-time right to decrease Parcel A space at its sole cost. The proposed Modification outlines Airport-required location, minimum/maximum square footage, and requires 45 days' prior written notice. Annual rent will be reduced by applying the new square footage to Office Lease rates on a per square foot basis.
5. **Annual Rent.** \$2,590,866.56 per year fixed for the Extension Term. This represents an increase of \$594,754.88 per year, or \$1,784,264.64 over the Extension Term. Annual Rent is comprised of:
 - Parcel A & B:
 - Terminal rent for Category II and III spaces pursuant to current and projected Airport Rates & Charges averaged over the three-year Extension Term. Parcel B rent increased to include the remaining balance of Surcharge Fee referenced below.
 - Operating costs for maintenance, janitorial services, and utilities pursuant to Airport Facilities' projections averaged over the three-year term.

- Plot 50-DJ Premises: \$10,045 per year, based on new average fair market value land rate of approximately \$175,029 per acre per year (\$4.018 per square foot per year).

Initial rates and average rates are summarized below.

Rate Category	Initial Rate/SF/YR	Average Rate/SF/YR	Annual Rent
Parcel A Rent – Cat II	\$255.21*	\$310.61	\$2,236,424.00
Parcel A Operating Cost	\$12.68	\$13.55	\$97,535.83
Parcel B Rent – Cat III	\$170.14**	\$207.08	\$228,612.64
Parcel B Operating Cost	\$12.68	\$13.55	\$14,955.49
Surcharge Fee	\$21.48	\$2.98	\$3,293.60
Plot 50-DJ Premises		\$4.018	\$10,045.00
Total			\$2,590,866.56


*CAT II for FY 20/21

**CAT III for FY 20/21

6. **Surcharge Fee.** Assessed to recover the cost of alterations and improvements installed by Airport to convert shell space into basic finished office space, which were constructed during the Airport's Terminal 2 Renovation Project. The above listed amounts represent the five months remaining on the 10-year surcharge assessment.

Recommendation

I recommend adoption of the accompanying Resolution approving Modification No. 2 to the Office Lease and directing the Commission Secretary to forward the Lease to the Board of Supervisors for approval under Section 9.118 of the Charter of the City and County of San Francisco.



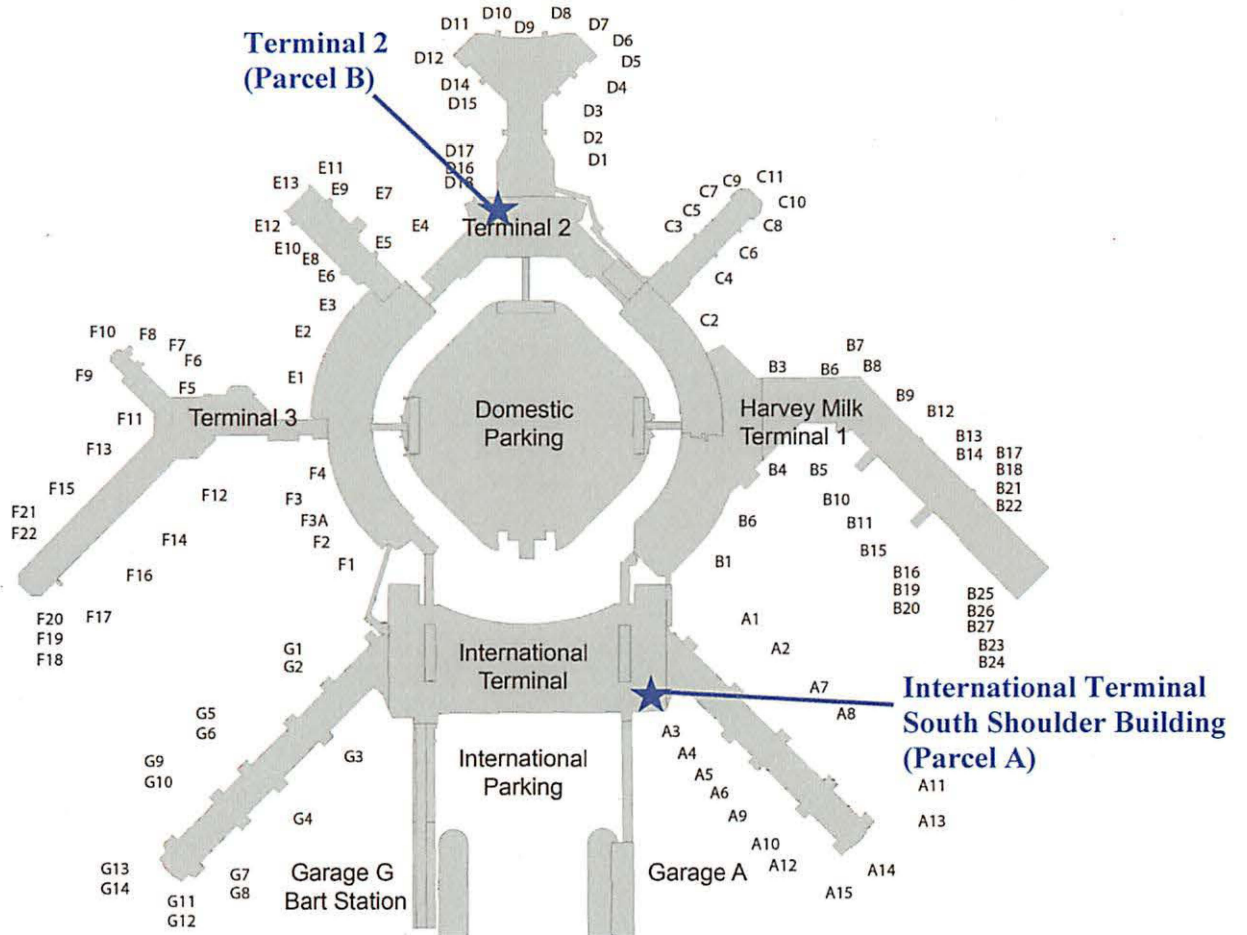
Ivar C. Satero
Airport Director

Prepared by: Cheryl Nashir
Acting Chief Commercial Officer

Attachments

Attachment A

U.S. GOVERNMENT, U.S. TRANSPORTATION SECURITY ADMINISTRATION
OFFICE LEASE LOCATIONS



Attachment A

U.S. GOVERNMENT, U.S. TRANSPORTATION SECURITY ADMINISTRATION
PLOT 50-DJ PREMISES LOCATION

