

File No. 110479

Committee Item No. 1

Board Item No. 20

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee Date: May 11, 2011

Board of Supervisors Meeting

Date 5/17/11

#### Cmte Board

- |                                     |                                     |  |
|-------------------------------------|-------------------------------------|--|
| <input type="checkbox"/>            | <input type="checkbox"/>            | Motion                                       |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Report                |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form (for hearings)             |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/>            | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |

#### OTHER

(Use back side if additional space is needed)

<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____

Completed by: Victor Young

Date: May 6, 2011

Completed by: Victor Young

Date: 5-12-11

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Approval of Modification No. 1 of Lease and Use Agreement L-10-0084 with Emirates at San  
2 Francisco International Airport]

3  
4 **Resolution approving and authorizing the execution of Modification No. 1 of Lease and Use**  
5 **Agreement L-10-0084 with Emirates for lounge space in the International Terminal, Boarding**  
6 **Area A, of San Francisco International Airport.**

7  
8 WHEREAS, by Airport Commission Resolution No. 10-0084, the Airport Commission  
9 approved Lease and Use Agreement L-10-0084 (the "Lease"), adopted on March 16, 2010,  
10 between Emirates and San Francisco International Airport; and

11 WHEREAS, by Board of Supervisors Resolution No. 208-10, the Board of Supervisors  
12 approved and adopted the Lease on May 10, 2010; and

13 WHEREAS, by Airport Commission Resolution No. 11-0058, the Airport Commission  
14 approved Modification No. 1 of the Lease on March 15, 2011; and

15 WHEREAS, pursuant to the Lease, Emirates occupies approximately 1,696 square feet of  
16 Category II Exclusive Use Space and all Categories of Joint Use Space in the International Terminal in  
17 order to operate its air carrier business; and

18 WHEREAS, Emirates desires to develop a premium class lounge for its passengers at the  
19 Airport; and

20 WHEREAS, Emirates wishes to expand into approximately 9,502 square feet of vacant  
21 Category II Exclusive Use Space located in the International Terminal Building, Boarding Area A; and

22 WHEREAS, Modification No. 1 will increase Lease revenues by \$1,415,418 annually; and

23 WHEREAS, a copy of the form of Modification No. 1 is on file with the Clerk of the Board of  
24 Supervisors in File No. 110479, which is hereby declared to be a part of this resolution as if set forth  
25 fully herein; now, therefore, be it

1           RESOLVED, that this Board of Supervisors hereby approves and authorizes the execution of  
2 Modification No. 1 to Lease and Use Agreement L-10-0084 between Emirates and the City and County  
3 of San Francisco, acting by and through its Airport Commission.  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**Item 1**  
**File 11-0479**

**Department:**  
San Francisco International Airport

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would authorize a modification to a recently-approved ten-year lease between the San Francisco International Airport (Airport) and Emirates Airlines to provide 9,502 square feet of additional space for a new premium lounge for Emirates Airlines customers.

### Key Points

- On December 15, 2008, Emirates Airlines commenced operations at the Airport and rented space under the terms of an Airline Terminal Space and Use Permit that automatically renews every 30 days. Since 2008, Emirates Airlines has rented 1,696 square feet of space from the Airport for ticketing and administrative offices under this Operating Permit. On May 11, 2010, the Board of Supervisors approved a new ten-year lease between the Airport and Emirates Airlines commencing on July 1, 2011 through June 30, 2021 for the same 1,696 square feet of space for Emirates Airlines. Following the approval of this new ten-year lease, Emirates Airlines proposed to construct a new premium lounge for its customers and requested that the Airport modify the recently-approved ten-year lease to increase the Emirates Airlines space of 1,696 square feet by 9,502 square feet, for a total of 11,198 square feet of space in the International Terminal.

### Fiscal Impacts

- The 1,696 square feet of space is currently leased to Emirates Airlines at \$148.96 per square foot per year, or a total cost of \$252,636 annually. On July 1, 2011, the Airport's FY 2011-2012 lease rate will increase to \$161.90 per square foot per year, or \$274,582 annually based on 1,696 square feet.
- If the Board of Supervisors approves the proposed lease to increase the existing 1,696 square feet by an additional 9,502 square feet of space, for a total of 11,198 square feet of space, at the Airport's FY 2011-2012 rate of \$161.90 per square foot, Emirates Airlines would pay the Airport a total of \$1,812,956 in FY 2011-2012. This would amount to an increase of \$1,538,374 annually, or 560 percent more than the rent of \$274,582 annually as previously anticipated under the ten-year lease.
- A residual rate setting methodology, or break even policy, is used by the Airport to determine annual rental rates, landing fees, and related fees for all Airlines. Under this residual rate setting methodology any budgetary surplus or shortfall resulting from an incident such as the proposed lease modification would be eliminated through decreased rental rates and related fees charged to all airlines located at the Airport. As a result of this policy, the proposed lease modification with Emirates Airlines would not have a direct fiscal impact on the Airport.

### Recommendation

- Approve the proposed resolution.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Section 2A.173 of the City's Administrative Code authorizes the Airport to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

City Charter Section 9.118 (a) requires the Board of Supervisors approve any lease which would result in revenues to the City in excess of \$1,000,000.

**Background**

Emirates Airlines has occupied space in the International Terminal of the San Francisco International Airport (Airport) since December 15, 2008, renting space under an Airline Terminal Space and Use Permit that automatically renews every 30 days unless the Airport or Emirates Airlines terminates the Permit, which requires 30 days' written notice.

On May 11, 2010, the Board of Supervisors approved Resolution No. 208-10, authorizing a new ten-year lease between Emirates Airlines and the Airport, which commences on July 1, 2011 and extends through June 30, 2021. The new ten-year lease includes the same provisions of the existing space Permit: Emirates Airlines will lease 1,696 square feet of space, including 331 square feet for ticket offices and 1,365 square feet for administrative offices in the International Terminal. The 1,696 square feet of space is currently leased to Emirates Airlines at \$148.96 per square foot per year, or a cost of \$252,636<sup>1</sup> annually.

Subsequent to the approval of this ten-year lease, Emirates Airlines proposed to construct a new premium lounge for its customers and requested that the Airport modify the recently-approved ten-year lease to increase Emirates Airlines square footage by 9,502 square feet.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would modify the ten-year lease, previously approved by the Board of Supervisors, extending from July 1, 2011 through June 30, 2021 between Emirates Airlines and the Airport to include an additional 9,502 square feet of space.

As noted above, Emirates Airlines currently rents a total of 1,696 square feet of space at the Airport, such that the proposed additional 9,502 square feet of space would provide a total of 11,198 square feet of space for Emirates Airlines. According to Ms. Linda Peng, Property Manager at the Airport, Emirates Airlines plans to construct a new 9,502 square foot premium lounge for Emirates Airlines customers, across from the British Airways lounge in a currently vacant area of the International Terminal. All costs of constructing this premium lounge will be the responsibility of Emirates Airlines. Construction is anticipated to be completed in the fall of

<sup>1</sup> The annual lease costs will increase on July 1, 2011 due to the Airport's higher FY 2011-2012 lease rate of \$161.90 per square foot per year, or a total of \$274,582 annually.

2011. If, at the end of the ten-year lease period in 2021, Emirates Airlines does not opt to renew the lease, the premium lounge, including all fixtures, would revert to the Airport.

## FISCAL IMPACT

As shown in the Table below, based on the Airport's proposed FY 2011-2012 rental rate of \$161.90 per square foot, the proposed lease, which would increase Emirates Airlines leased space from 1,696 square feet to 11,198 square feet, would result in an annual rent payable by Emirates Airlines to the Airport of \$1,812,956, an increase of \$1,538,374 or 560 percent from the previously anticipated annual rent of \$274,582.

Proposed Increase In Leased Space			
Type of Space	Square Feet Under Current Lease Terms	Square Feet Under Proposed Modified Lease Terms	Difference
Total Space (Square Feet)	1,696	11,198	9,502
FY 2011-2012 Annual Rental Rate (per square foot)	\$161.90	\$161.90	\$0
<b>Annual Rent</b>	<b>\$274,582</b>	<b>\$1,812,956</b>	<b>\$1,538,374</b>

As a result of the Airport's residual rate setting methodology (break even policy) used to determine annual rental rates, landing fees, and related fees for all Airlines, the rent increase proposed in the modified lease for Emirates Airlines will not result in an overall budgetary increase for the Airport. The residual rate setting methodology, or break even policy, is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from all of the airlines at the Airport, plus the non-airline revenues received by the Airport, is equal to the Airport's total costs, including debt service and operating expenditures. According to the Airport's breakeven policy, prior to the beginning of each fiscal year, the Airport determines the total airline revenues needed to balance the Airport's budget in the upcoming year, after considering all other non-airline revenue sources (such as concession revenues and parking revenues) and carrying forward any projected budget shortfall or surplus from the current fiscal year.

The amount needed to balance the Airport's budget then becomes the basis for calculating, by a formula specified in the leases with all of the airlines operating at the Airport, the rental rates, landing fees, and related fees charged to the airlines each fiscal year, such that the total revenues paid to the Airport by all airlines and other tenants in the upcoming fiscal year is sufficient to balance the Airport's budget. At the end of the fiscal year, any budgetary shortfall or surplus is carried forward into the following fiscal year and is used in the calculation of the new rental rates, landing fees, and related fees charged to the airlines and other tenants. Therefore, the rental increase proposed in the modified ten-year lease with Emirates Airlines would not have a direct fiscal impact on the Airport.

## RECOMMENDATION

Approve the proposed resolution.



San Francisco International Airport

April 1, 2011

*File 110479*

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2011 APR 11 PM 1:41  
*Rz*

Ms. Angela Calvillo, Clerk of the Board  
Board of Supervisors  
City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102-4689

**Subject: Approval of Modification No. 1 to Lease and Use Agreement  
L-10-0084 between Emirates and the City and County of San Francisco, acting  
by and through its Airport Commission**

Dear Ms. Calvillo:

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval Modification No. 1 (the "Modification") to Lease and Use Agreement L-10-0084 (the "Lease") between the City and County of San Francisco, acting by and through its Airport Commission, and Emirates, ("Airline") for lounge space. This Modification was approved by Airport Commission Resolution No. 11-0058, adopted March 15, 2011.

The Modification adds approximately nine thousand five hundred and two (9,502) square feet of Category II Exclusive Use Space in the International Terminal to the Lease for a term of ten (10) years with an annual rent of \$1,415,418.

The following is a list of accompanying documents (five sets):

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 11-0058;
- Commission Memorandum;
- Form SFEC-126: Notification of Contract Approval; and
- Modification No. 1 to the Lease.

You may contact Teresa Rivor of Airport Aviation Management Department at (650) 821-4525 regarding this matter.

Very truly yours,  
*Jean Caramatti*  
Jean Caramatti  
Commission Secretary

Enclosures

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE MAYOR	LARRY MAZZOLA PRESIDENT	LINDA S. CRAYTON VICE PRESIDENT	ELEANOR JOHNS	RICHARD J. GUGGENHIME	PETER A. STERN	JOHN L. MARTIN AIRPORT DIRECTOR
-----------------------	----------------------------	------------------------------------	---------------	-----------------------	----------------	------------------------------------

**AIRPORT COMMISSION**

CITY AND COUNTY OF SAN FRANCISCO

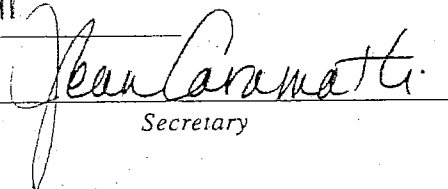
RESOLUTION NO. 11-0088

APPROVAL OF MODIFICATION NO. 1 TO EMIRATES 2011 LEASE AND USE AGREEMENT, L10-0084.

- WHEREAS, Emirates operates daily flights between San Francisco and Dubai, United Arab Emirates; and
- WHEREAS, Emirates wishes to develop a premium class lounge in Boarding Area "A" in the International Terminal which consists of 9,502 square feet of Category II exclusive use space; and
- WHEREAS, such rental space will generate \$1,415,418 per year in incremental revenue to the Airport; and
- WHEREAS, Emirates has previously entered into the 2011 Lease and Use Agreement, L10-0084, with the Airport effective July 1, 2011; now, therefore, be it
- RESOLVED, that this Commission hereby approves and authorizes the Director to execute a Modification to Lease L10-0084; to add 9,502 square feet of Category II exclusive use space; and, be it further
- RESOLVED, that the Commission Secretary is hereby directed to request approval of the Modification of the Lease by resolution of the Board of Supervisors pursuant to 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 \_\_\_\_\_

MAR 15 2011

  
Secretary





San Francisco International Airport

**MEMORANDUM**

March 15, 2011

**TO:** AIRPORT COMMISSION  
Hon. Larry Mazzola, President  
Hon. Linda S. Crayton, Vice President  
Hon. Eleanor Johns  
Hon. Richard J. Guggenlime  
Hon. Peter A. Stern

**FROM:** Airport Director

**SUBJECT:** Modification No. 1 of Emirates 2011 Lease and Use Agreement, L10-0084

**DIRECTOR'S RECOMMENDATION:** ADOPT RESOLUTION APPROVING MODIFICATION NO. 1 OF EMIRATES 2011 LEASE AND USE AGREEMENT (NO. L10-0084) WHICH: 1) ADDS APPROXIMATELY 9,502 SQUARE FEET OF CATEGORY II EXCLUSIVE USE SPACE IN THE INTERNATIONAL TERMINAL; AND 2) DIRECTS THE COMMISSION SECRETARY TO REQUEST BOARD OF SUPERVISORS' APPROVAL OF THE LEASE MODIFICATION.

**Executive Summary**

Pursuant to Emirates' 2011 Lease and Use Agreement (the "Lease"), Emirates occupies Category II Exclusive Use Space and utilizes Joint Use Space in the International Terminal. Emirates wishes to offer its passengers a premium class lounge and, pursuant to Modification No. 1 of the Lease, wishes to add 9,502 square feet of Category II exclusive use space. This will increase rental revenues by \$1,415,418 annually.

**Background**

On March 16, 2010 and May 11, 2010, respectively, pursuant to Airport Commission Resolution No. 10-0084 and Board of Supervisors Resolution No. 208-10, Emirates became a signatory to the Airport's 2011 Lease and Use Agreement, L10-0084 (the "Lease"), a ten year lease agreement which will go into effect on July 1, 2011.

Subsequent to the execution of the Lease, Emirates now desires to offer its passengers a premium class lounge in Boarding Area "A" in the International Terminal. The selected site is comprised of 9,502 square feet of Category II space.

**Proposal**

Staff has determined that a lounge is an excellent use of the space and will generate Category II rates resulting in incremental revenue of \$1,415,418 per year.

THIS PRINT COVERS CALENDAR ITEM NO. 6

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE  
MAYOR

LARRY MAZZOLA  
PRESIDENT

LINDA S. CRAYTON  
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

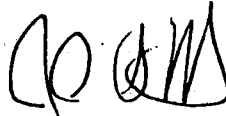
PETER A. STERN

JOHN L. MARTIN  
AIRPORT DIRECTOR

Upon Airport Commission and Board approval, staff will incorporate the lounge into the Lease.

**Recommendation**

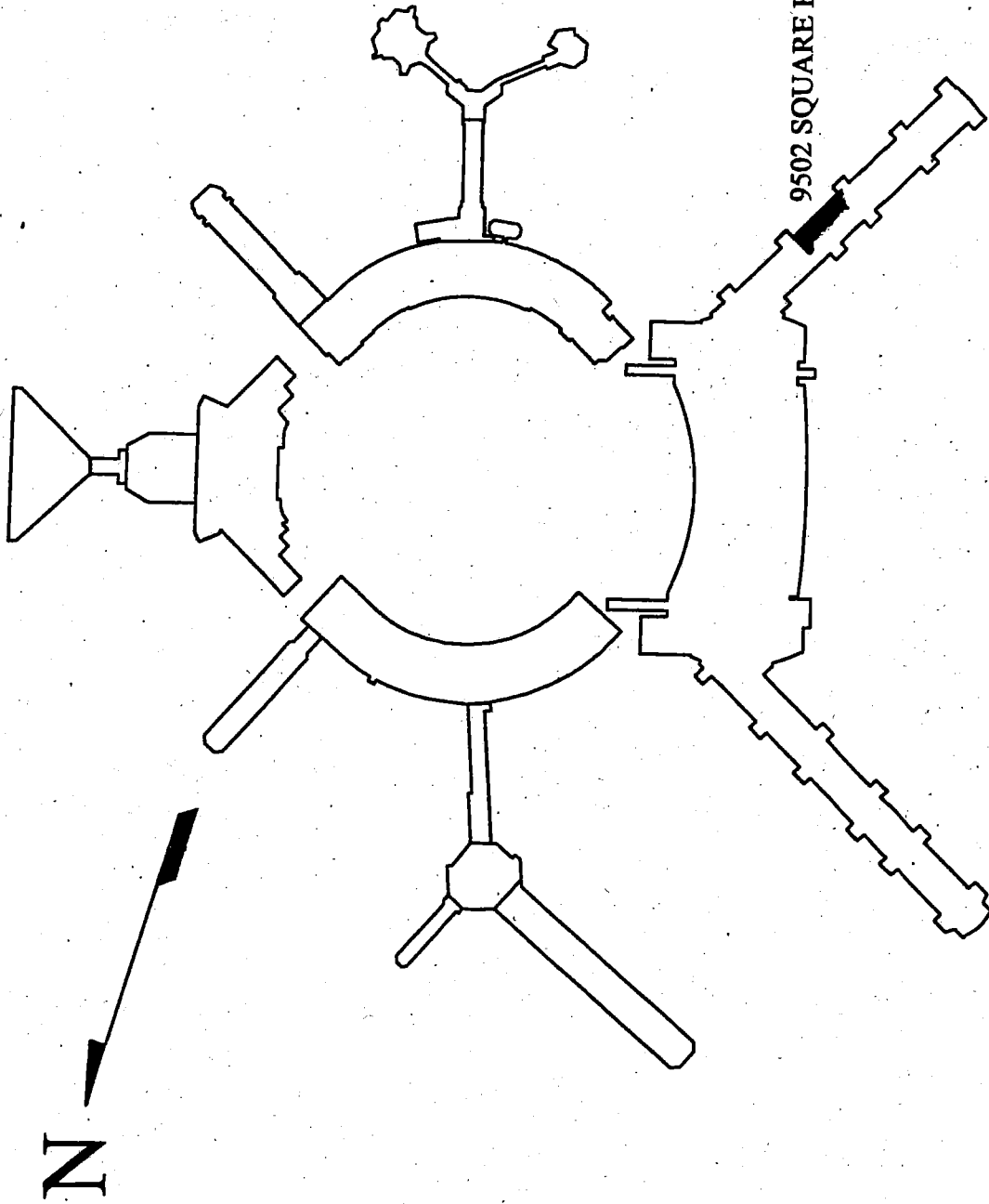
I recommend the adoption of the accompanying Resolution to approve Modification No. 1 to the Emirates' Lease to add 9,502 square feet of Category II exclusive use space. The Commission Secretary is further directed to request Board of Supervisors' approval of the lease modification in accordance with City Charter Section 9.118.



John L. Martin  
Airport Director

Prepared by: Leo Fermin  
Deputy Airport Director  
Business and Finance

Attachment



**UNITED ARAB EMIRATES LOUNGE  
BOARDING AREA A 2ND AND 3RD FLOORS**

**MODIFICATION NO. 1 TO  
2011 LEASE AND USE AGREEMENT  
SAN FRANCISCO INTERNATIONAL AIRPORT  
EMIRATES**

THIS MODIFICATION OF AGREEMENT (this "**Modification**") dated as of July 1, 2011, is entered into by and between the City and County of San Francisco, acting by and through its Airport Commission ("**City**"), and Emirates ("**Airline**").

**Recitals**

A. The City and County of San Francisco owns San Francisco International Airport (the "**Airport**") located in the County of San Mateo, State of California, which Airport is operated by and through the Airport Commission, the chief executive officer of which is the Airport Director.

B. Pursuant to Airport Commission Resolution No. 10-0084 and Board of Supervisors' Resolution No. 208-10 on March 16, 2010 and May 11, 2010, respectively, Airline became a signatory to the 2011 Lease and Use Agreement under lease number L10-0084 whereby, effective July 1, 2011, Airline will commence a ten year leasehold with the City for certain premises located at the Airport, (the "**Agreement**").

C. Airline now desires to develop a premium class lounge in Boarding Area "A" in the International Terminal which consists of 9,502 square feet of Category II exclusive use space.

D. Airline and City agree that Airline shall construct on behalf of the Airport the vertical circulation required to access the lounge.

E. Airline and City now desire to modify the terms of the Agreement to reflect the addition of the lounge space.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants set forth herein, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties do mutually agree as follows:

**1. Effective Date; Defined Terms.**

(a) The effective date (the "**Effective Date**") of this Modification shall be July 1, 2011 conditioned upon the following conditions: (1) the Airport Commission and Board of Supervisors shall have approved this Modification; and (2) both parties have executed this Modification.

(b) Rent for the lounge, as further described in Articles 3 and 4 below, shall commence upon completion by Airline of Airport-related vertical circulation, but in no event later than August 1, 2011.

(c) Capitalized terms not defined herein shall have the meanings given them in the Agreement.

**2.** Airline's International Terminal Joint Use Space remains unchanged, as defined in Article 1 and Exhibit D of the Agreement.

3. From and after the Effective Date, Airline's International Terminal Exclusive Use Space, as defined in the Agreement, including in Article I and Exhibit D, is modified as follows:

(a) Addition of approximately 9,502 square feet of Category II Exclusive Use Space, further described as VIP Clubs and Lounges located in the International Terminal.

4. From and after the Effective Date, Exhibit D of the Agreement is amended to include Airport Drawing Nos. UAEBA2 (Room No. B.2.052) and UAEBA3 (Room No. A.3.045C), dated July 1, 2011, incorporated herein and attached hereto.

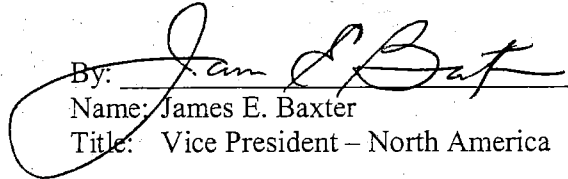
5. From and after the Effective Date, Airline's Exclusive Use Space shall consist of the following:

Type	Exclusive Use Space Type	Square Feet
Airline Ticket Office	II	331
Airline Administrative Office, 3 <sup>rd</sup> Floor+	II	1,365
VIP Clubs and Lounges	II	9,502

6. Full Force and Effect. As modified hereby, each and every one of the terms, conditions, and covenants in the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate by their duly authorized officers the day and year first hereinabove written.

AIRLINE: Emirates,

By:   
Name: James E. Baxter  
Title: Vice President – North America

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CITY: CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation,  
acting by and through its Airport Commission

\_\_\_\_\_  
John L. Martin  
Airport Director

AUTHORIZED BY AIRPORT  
COMMISSION

Resolution No. \_\_\_\_\_  
Adopted: \_\_\_\_\_  
Attest: \_\_\_\_\_

Secretary  
Airport Commission

APPROVED AS TO FORM:  
DENNIS J. HERRERA, City Attorney

By   
Deputy City Attorney

**FORM SFEC-126:  
NOTIFICATION OF CONTRACT APPROVAL  
(S.F. Campaign and Governmental Conduct Code § 1.126)**

<b>City Elective Officer Information</b> <i>(Please print clearly.)</i>	
Name of City elective officer(s):  Members, SF Board of Supervisors	City elective office(s) held:  Members, SF Board of Supervisors

<b>Contractor Information</b> <i>(Please print clearly.)</i>	
Name of contractor: <b>Emirates</b>	
<i>Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.</i>	
<b>Board Members:</b> Emirates is a non public company based in Dubai, UAE. There is no Board of Director. CEO, HH S Ahmed B Saeed Al Maktoum NO CFO, COO	
Contractor address: 55 East 55 <sup>th</sup> Street, New York, NY10022.	
Date that contract was approved:	Amount of contract: TBD each FY
Describe the nature of the contract that was approved: 2011 Airport/Airline Lease and Use Agreement	
Comments:	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form :

a board on which the City elective officer(s) serves San Francisco Board of Supervisors  
Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

<b>Filer Information</b> <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: 0 415-554-5184
Address: City Hall, Room 244 1 Dr. Carlton B Goodlett Pl., SF CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed

