



MEMORANDUM

September 5, 2017

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: Approval of Modification No. 1 to Lease No. GS-09B-03014 with the U.S. Government to Extend the Term and Adjust the Annual Rent for Offices Occupied by the U.S. Transportation Security Administration

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 1 TO LEASE NO. GS-09B-03014 WITH THE U.S. GOVERNMENT TO EXTEND THE TERM OF THE LEASE BY THREE YEARS AND ADJUST THE ANNUAL RENT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 1 TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Pursuant to Lease No. GS-09B-03014 ("the Lease"), between the U.S. Government and the San Francisco International Airport (the "Airport"), the U.S. Transportation Security Administration ("TSA") occupies approximately 8,304 square feet of terminal space. The Lease expires on October 31, 2017 and the TSA wishes to continue occupancy for an additional three years. The proposed Lease modification will extend the term by three years and adjust the annual rent to \$1,996,111.68 (the "Modification").

Background

The TSA, an agency of the U.S. Department of Homeland Security, is responsible for ensuring aviation security at all U.S. airports, including the Airport. On August 7, 2012, pursuant to Commission Resolution No. 12-0185, the Commission approved GSA Lease No. GS-09B-03014, which provided for administrative office space for the TSA in the International Terminal ("IT") and Terminal 2 ("T2"). The Board of Supervisors subsequently approved the Lease, pursuant to Resolution No. 399-12, on October 30, 2012.

THIS PRINT COVERS CALENDAR ITEM NO. 16

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 IVAR C. SATERO AIRPORT DIRECTOR

The Lease has a term of five years, terminating on October 31, 2017, and provides for 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"). It also provides for 52 employee parking spaces. The annual rent is fixed for the term of the Lease at \$1,692,038.40 and is comprised of: 1) terminal rent, 2) a tenant improvement surcharge for the Cat III space, and 3) an Operating Cost for services provided by the Airport.

The TSA wishes to continue occupancy of the terminal space pursuant to Lease Modification No. 1, which extends the term by three years commencing November 1, 2017, and adjusts the rent to \$1,996,111.68 per year (the "Modification"), which is fixed for the term.

In addition to terminal rental, the Lease requires the Airport to provide maintenance of the premises, tenant improvements, infrastructure and building systems, and to provide 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.

Proposal

Airport staff has negotiated and is seeking approval of the proposed Modification for terminal space to accommodate the TSA's continued need for administrative offices, which provides for the following business terms:

1. **Extension Term.** Three years, firm.
2. **Effective Date.** November 1, 2017.
3. **Early Termination.** The TSA may terminate the Lease with 60 days written notice should the Airport become de-federalized or Congress ceases to appropriate funds for the TSA program.
4. **Annual Rent.** \$1,996,111.68 per year is fixed for the Extension Term. This represents an increase of \$912,219.84 over the Extension Term.

A rental rate is comprised of: 1) terminal rent for Category II and III spaces, the latter being inclusive of a Surcharge Fee for construction of basic finishes to the Category III space, and 2) an operating cost component which reimburses the Airport for providing janitorial services, maintenance of the premises, and utilities (the "Operating Cost").

The rental rate was derived by determining initial costs for the various categories specified below, with the exception of the Surcharge Fee, which is fixed per the Airport's Rates and Charges. The initial rates were escalated annually by a specified percentage, based on the Airport's three-year projected operating budget and were then averaged over three years to arrive at an average for both the rent for the respective space categories and the Operating Cost. The 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	\$222.43*	\$237.30	\$1,708,561.00
Parcel B Rent – Cat III	\$148.29**	\$158.20	\$174,652.80
Parcel B Surcharge Fee	\$21.48	\$21.48	\$23,713.92
Operating Cost	\$10.28	\$10.74	\$89,184.96
Total			\$1,996,111.68

*CAT II for FY 17/18

**CAT III for FY 17/18

5. **Operating Cost.** Provides reimbursement for the maintenance of the premises, tenant improvements constructed by the TSA, terminal infrastructure and building systems, provision of janitorial services and utilities, including electricity and water.
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.

Recommendation

I recommend adoption of the accompanying Resolution that approves Modification No. 1 to the Lease which: 1) extends the term of Lease No. GS-09B-03014 with the U.S. Government by three years effective November 1, 2017, and 2) modifies the annual rent to \$1,996,111.68.



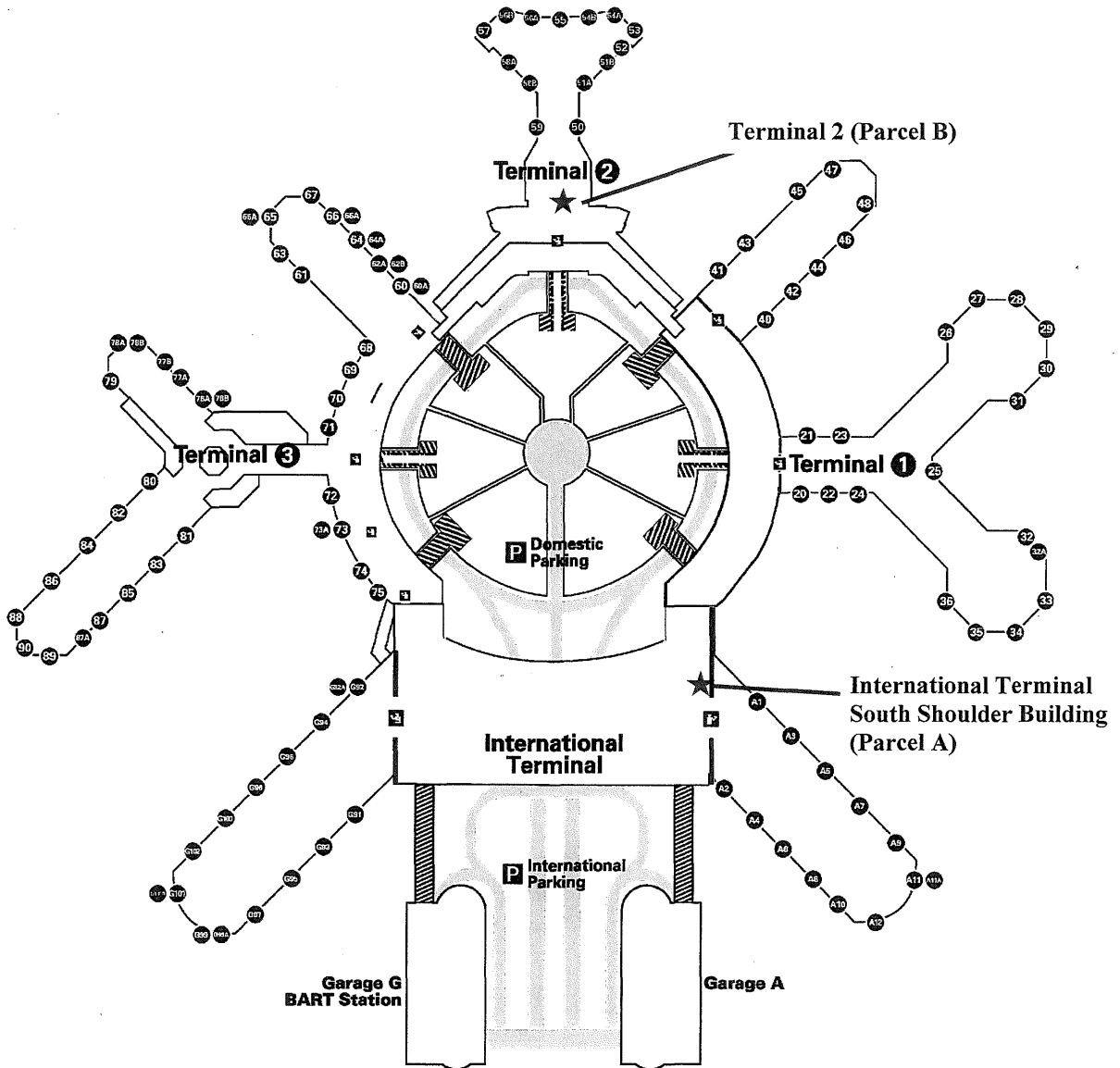
Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

Attachment A

U.S. TRANSPORTATION SECURITY ADMINISTRATION OFFICES



AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 17-0221

APPROVAL OF MODIFICATION NO. 1 TO LEASE NO. GS-09B-03014 WITH THE U.S. GOVERNMENT TO EXTEND THE TERM OF THE LEASE BY THREE YEARS AND ADJUST THE ANNUAL RENT, AND DIRECTING THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 1 TO THE BOARD OF SUPERVISORS FOR APPROVAL

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

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

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

WHEREAS, the Lease provides for 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”), collectively the premises, and a five-year term, which will expire on October 31, 2017; and

WHEREAS, the TSA wishes to continue occupancy of the premises for an additional three-year period, with a commensurate modification of rent, pursuant to a Modification No. 1 to the Lease; and

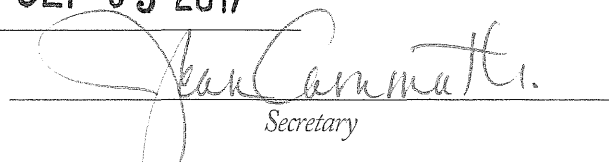
WHEREAS, Airport staff has negotiated a Lease modification with the GSA to extend the term of the Lease by three years, effective November 1, 2017, and modify the annual rent to \$1,996,111.68, which is fixed for the term (the “Modification”); now, therefore, be it

RESOLVED, that the Airport Commission hereby approves Modification No. 1 to Lease No. GS-09B-03014 with the U.S. Government to extend the term of the Lease by three years and modifies the annual rent to \$1,996,111.68, on the terms and conditions set forth in the Director’s Memorandum; and be it further

RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward the Modification to the Board of Supervisors for approval.

*I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of _____*

SEP 05 2017


Secretary