

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 13\_0057

RESOLUTION 1) APPROVING LEASE MODIFICATION NO. FIVE TO LEASE NO. L73-0066, BETWEEN UNITED AIR LINES, INC. AND THE SAN FRANCISCO INTERNATIONAL AIRPORT, FOR APPROXIMATELY 124.13 ACRES OF LAND AT THE MAINTENANCE OPERATIONS CENTER AT PLOTS 16 AND 16B AND THE EQUIVALENT OF 5.34 ACRES FOR EMPLOYEE PARKING; AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. FIVE TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, pursuant to Airport Commission Resolution No. 73-0066, dated June 18, 1973, as amended by Airport Commission Resolution Nos. 80-0066, 94-0139, 00-0440 and 04-0058, (the "Lease") United Air Lines, Inc. ("United") occupies approximately 129.18 acres of land at Plots 16 and 16B (the "Premises"), including certain rights-of-way and easements, utilized for its Maintenance Operations Center ("MOC") and utilizes the equivalent of 5.34 acres in the Airport's Lot D Garage for approximately 931 employee parking spaces (the "Lot D Employee Parking") as replacement parking for land that was removed from the Premises pursuant to Modification No. Two, dated May 2, 1996; and

WHEREAS, the Lease has a term of twenty (20) years with two 10-year options, the second of which expires on June 30, 2013; and

WHEREAS, pursuant to Modification No. Four to the Lease, the City approved a Cure Stipulation Agreement which granted United a third option to extend the term of the Lease (the "Option") by an additional ten (10) years (the "Option Term") at a rent equal to fair market value of the land. On January 4, 2013, United formally exercised the Option; and

WHEREAS, the City and United have negotiated the terms and conditions of a modification which: 1) adjusts annual rent to \$12,040,710, based on a negotiated fair market value of \$93,000 per acre per year for years one through three of the Option Term, with annual CPI adjustments thereafter using year three of the Option Term as the base index, and which adjustments are capped at 3% per year; 2) reduces the Premises to 124.13 acres, including certain rights-of-way and easements; and 3) grants United a one-time Option to relinquish up to thirty percent (30%) of the acreage comprising the Premises and the Lot D Employee Parking (the "Contraction Option"), to be effective either July 1, 2018 or July 1, 2019 conditioned upon certain requirements, all as more fully set forth in the Director's Memorandum (collectively, the Modification"); now, therefore, be it

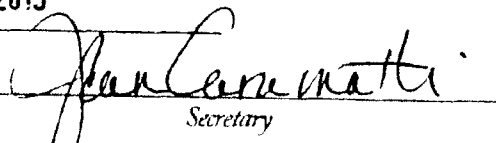
RESOLVED, that this Commission hereby approves and authorizes the Director to execute Modification No. Five to Lease No. L73-0066 between United Air Lines and the City which: 1) adjusts the annual rent to \$12,040,710, based on \$93,000 per acre per year for 129.47 acres, with subsequent adjustments commencing in year 4 of the Option Term; 2) reduces the Premises to approximately 124.13 acres of land at Plots 16 and 16B, including certain rights-of-way and easements; and 3) grants United a one-time Contraction Option; and, be it further

RESOLVED, that the Commission Secretary is hereby directed to request approval of Modification No. Five 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 19 2013

  
Secretary



San Francisco International Airport

MEMORANDUM

March 19, 2013

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. Five to Lease No. L73-0066, between United Air Lines, Inc. and the San Francisco International Airport, for Land at the Maintenance Operations Center at Plots 16 and 16B.

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO APPROVE MODIFICATION NO. FIVE TO LEASE L73-0066, BETWEEN UNITED AIR LINES, INC. AND THE SAN FRANCISCO INTERNATIONAL AIRPORT, FOR APPROXIMATELY 124.13 ACRES OF LAND AT THE MAINTENANCE OPERATIONS CENTER AT PLOTS 16 AND 16B AND EQUIVALENT EMPLOYEE PARKING AT THE AIRPORT'S LOT D GARAGE.

Executive Summary

Pursuant to Lease No. L73-0066 (the "Lease") between the City and County of San Francisco, acting by and through its Airport Commission (the "City" or "Airport") and United Air Lines, Inc. ("United"), United leases approximately 129.18 acres of land at Plots 16 and 16B for its Maintenance Operation Center ("MOC"), including certain rights-of-way and easements, and is granted the right to use the equivalent of 5.34 acres in the Airport's Lot D Garage for employee parking. The current rent is \$11,122,951 per year, based on a rate of \$82,686.32 per acre per year.

The Lease has a term of twenty years with two 10-year options, the latter of which expires on June 30, 2013. Pursuant to Modification No. Four to the Lease, the City approved a Cure Stipulation Agreement which granted United a third option to extend the term of the Lease (the "Option") by an additional ten (10) years (the "Option Term") at a rent equal to fair market value of the land. On January 4, 2013, United formally exercised the Option subject to negotiation of the business terms and approval by United's Board. No additional Airport Commission or Board of Supervisors' approval is required for the term extension based on the terms and conditions of the Cure Stipulation Agreement, as approved in 2004.

The parties have negotiated certain other business terms of the modification as follows:

- 1) annual rent will be adjusted to \$12,040,710.00, an eight percent (8%) increase based on the fair market value of \$93,000 per acre per year;
- 2) rent will be adjusted pursuant to a structured adjustment schedule;
- 3) the Premises will be reduced to 124.13 acres, at the request of the City, to address an increased need for land for Airport purposes; and
- 4) United will be granted a one-time option to relinquish up to thirty

THIS PRINT COVERS CALENDAR ITEM NO. 4

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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AIRPORT DIRECTOR

percent (30%) of the acreage comprising the Premises and the equivalent acreage for the Lot D Employee Parking (129.47 acres) effective on the commencement of either year six or seven of the Option Term, subject to Airport review and approval (collectively, the "Modification").

Staff is seeking Airport Commission approval of the Modification based on the business terms set forth below.

#### Background

Pursuant to Airport Commission Resolution No. 73-0066, dated June 18, 1973, as amended by Airport Commission Resolution Nos. 80-0066, 94-0139, 00-0440 and 04-0058, United occupies approximately 129.18 acres of land at Plots 16 and 16B for its MOC (the "Premises") and uses the equivalent of 5.34 acres in the Airport's Lot D Garage for approximately 931 employee parking spaces as replacement for parking formerly situated on 5.34 acres of land that was removed from the Premises pursuant to Modification No. Two, dated May 2, 1996 (the "Lot D Employee Parking"). The rental rate paid for the Lot D Employee Parking is based on the same rate, in effect from time to time, as the rental rate for the Premises. The annual rent is, therefore, based on 134.52 acres of land.

The Lease has a term of twenty (20) years with two 10-year options, the second of which expires on June 30, 2013. Pursuant to Resolution No. 04-0058, adopted March 31, 2004, the Commission approved the Cure Stipulation Agreement relating to United's Chapter 11 bankruptcy proceedings. This granted United one additional 10-year option to extend the term at a rental rate equal to fair market value of the land. United formally exercised the Option on January 4, 2013.

In light of upcoming Airport projects in the MOC vicinity, including the development of a gas station and a solar power reverter site, and to provide for periodic overflow parking to satisfy peak parking demands, the Airport has negotiated with United to recapture approximately 6.53 acres of land. The proposed Premises will be comprised of approximately 124.13 acres of land.

United also proposes that it be granted a one-time option to relinquish up to thirty percent (30%) of the acreage comprising the Premises and equivalent acreage for the Lot D Employee Parking (the "Contraction Option"), not to exceed 38.84 acres, to provide flexibility for land requirements over the Option Term. United and the City have negotiated the terms and conditions of such relinquishment.

In anticipation of the changes contemplated in the Modification, and to prepare for the pending negotiation of the terms and conditions of the Modification, the Airport: 1) had the MOC Premises resurveyed to validate the future boundary of the Premises and the parcels to be recaptured; and 2) initiated an appraisal by the City's Real Estate Department to determine the fair market value of the land.

#### Proposal

Staff has negotiated, and is seeking approval of, the following business terms of the Modification:

1. **Premises:** Approximately 124.13 acres of land at Plots 16 and 16B for the MOC, including certain rights-of-way and easements.
2. **Lot D Employee Parking:** Use of the equivalent of 5.34 acres of land for employee parking in the Airport's Lot D Garage will continue.
3. **Option Term:** Ten (10) years.
4. **Effective Date of Option Term:** July 1, 2013.

5. **Expiration Date:** June 30, 2023.
6. **Annual Rent:** Twelve Million Forty Thousand Seven Hundred and Ten Dollars (\$12,040,710.00) per year (\$93,000 per acre per year times 129.47 acres).
7. **Rental Rate:** \$93,000 per acre per year based on a negotiated fair market value.
8. **Rent Adjustment:** Rent will be fixed for the second and third year of the Option Term. Commencing year four of the Option Term, and annually thereafter, the rent will be increased pursuant to changes in the Consumer Price Index, using year three as the base index, and conditioned upon a cap of three percent (3%) per year.
9. **Contraction Option:** United will be granted a one-time option to relinquish up to thirty percent (30%) of the total acreage comprising the Premises and the equivalent acreage of the Lot D Employee Parking (the "Contraction Space"), not to exceed 38.84 acres, to be effective on either July 1, 2018 or July 1, 2019, at United's discretion. United shall provide seven (7) months written notice to the Airport specifying the location of the Contraction Space; the Airport shall have four (4) months to either accept or reject the proposal. In the event the City rejects the proposal, the parties shall negotiate in good faith to determine Contraction Space that is mutually acceptable by both parties.

#### Recommendation

I recommend the adoption of the accompanying Resolution approving Modification No. Five to the Lease with United Air Lines to: 1) adjust the annual rent to \$12,040,710.00 based on \$93,000 per acre per year with subsequent adjustments as specified herein; 2) reduce the Premises to 124.13 acres of land, including certain rights-of-way and easements; and 3) grant United a one-time Contraction Option. The resolution further directs the Commission Secretary to request Board of Supervisors' approval of Lease Modification No. Five, in accordance with City Charter Section 9.118.

  
John L. Martin  
Airport Director

Prepared by: Leo Fermin  
Deputy Airport Director  
Business and Finance

Attachment