

MEMORANDUM

January 16, 2018

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

FROM: Airport Director

SUBJECT: Approval of Amendment No. 1 to Lease TC-I-02-2801 with U. S. Customs and Border Protection at Building 648

DIRECTOR'S RECOMMENDATION: APPROVE LEASE AMENDMENT NO. 1 TO FACILITY LEASE NO. TC-I-02-2801 WITH U.S. CUSTOMS AND BORDER PROTECTION TO EXTEND THE TERM OF THE LEASE FOR AN ADDITIONAL TEN YEARS, ADJUST THE ANNUAL RENT, AND DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL OF AMENDMENT NO. 1 BY THE BOARD OF SUPERVISORS.

Executive Summary

Pursuant to Lease TC-I-02-2801 (the "Lease"), U.S. Customs and Border Protection ("Customs") occupies a portion of West Field Cargo Building 648, which expires on January 31, 2018. Customs wishes to continue occupancy of the demised premises pursuant to Lease Amendment No. 1, which extends the term of the Lease for an additional ten years, effective February 1, 2018, and modifies the annual rent from \$1,023,268.55 to \$833,036 (the "Amendment").

Background

Under Commission Resolution No. 02-0079, approved on April 2, 2002, and Board of Supervisors' Resolution No. 494-02, approved on July 26, 2002, Customs occupies approximately 16,170 square feet of finished offices and ancillary space in West Field Cargo Building 648 (formerly known as West Field Cargo Building 1) to conduct its Customs Cargo operation. The Lease has a term of fifteen years, which expires on January 31, 2018. Customs wishes to continue occupancy of the demised premises pursuant to the Amendment which extends the term by ten years, effective retroactively on February 1, 2018.

The annual rent under the Lease is broken into four categories, comprised of base rent, parking fees, operating and maintenance fees, and debt service. The rent structure under the Amendment will remain the same except that the debt service will be modified to reflect: 1) the full amortization of the

THIS PRINT COVERS CALENDAR ITEM NO. 14

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LARRY MAZZOLA
PRESIDENTLINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

IVAR C. SATERO
AIRPORT DIRECTOR

original \$2.7M cost incurred to complete certain tenant improvements for Customs in 2002, and 2) the beginning of a new debt service for costs incurred to refurbish the demised premises at an estimated cost of \$600,000. The scope of the refurbishment will include touch up painting, repairs to carpet and work stations as needed and the subdivision of one office.

Under the current structure, the rent for the first year of the extension period will be \$833,036. Customs will continue to pay \$1.00 per year and the remainder will be paid monthly by the international carriers in the form of the Customs Cargo Facility Fee, pursuant to the Airport's Rates and Charges schedule.

Proposal

Airport staff has negotiated the Amendment which provides for the following modified business terms:

1. **Extension Term.** Ten years commencing February 1, 2018.
2. **Annual Rent.** Estimated at \$833,036 per year. The estimated Annual Rent for the first year of the extension period will be adjusted, either up or down, upon completion of the refurbishment work and determination of the final cost and related debt service.

Rent Structure

Base Rent:	\$430,254 (\$26.61/sf/year)
Parking:	\$144,000 (\$8.91/sf/year)
O & M Services:	\$162,248 (\$10.03/sf/year)
Debt Service:	\$ 96,534 (\$5.97/sf/year) based on an estimated refurbishment cost of \$600,000, to be amortized over 10 years at 6% interest.

Recommendation

I recommend adoption of the accompanying Resolution that approves Amendment No. 1 to the Lease to: 1) extend the term by ten years, 2) adjust the annual rent to \$833,036, and 3) direct the Commission Secretary to forward Amendment No. 1 to the Board of Supervisors for approval.


Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachment

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 18-0016

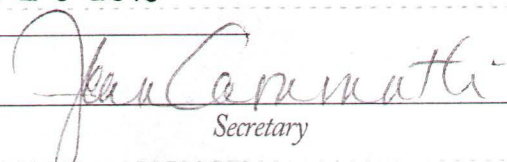
RESOLUTION APPROVING LEASE AMENDMENT NO. 1 TO FACILITY LEASE NO. TC-I-02-2801 WITH U.S. CUSTOMS AND BORDER PROTECTION TO EXTEND THE TERM OF THE LEASE FOR AN ADDITIONAL TEN YEARS, ADJUST THE ANNUAL RENT, AND DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL OF AMENDMENT NO. 1 BY THE BOARD OF SUPERVISORS

- WHEREAS, the Cargo Unit of U.S. Customs and Border Protection (“Customs”) currently conducts its cargo inspection operations in approximately 16,170 square feet of office space at the Airport’s West Field Cargo Building No. 648 under Facility Lease TC-I-02-2801 (the “Lease”); and
- WHEREAS, the Lease provides for an annual rent of \$1,023,268.55 and a term of fifteen years, which expires on January 31, 2018; and
- WHEREAS, Customs wishes to continue its occupancy of the demised premises pursuant to Amendment No. 1 to the Lease (the “Amendment”) which extends the term by ten years, commencing February 1, 2018; and
- WHEREAS, the Amendment also provides for a modified annual rent of \$833,036, for the first year of the extension term, which reflects a cessation of debt service for the Airport provided improvements to demised premises completed in 2002 and the beginning of a new debt service to reimburse the Airport for costs incurred for the refurbishment of the demised premises; and
- WHEREAS, all other terms, conditions, and covenants of the Lease shall remain in full force and effect; now, therefore, be it
- RESOLVED, that the Airport Commission hereby approves Amendment No. 1 to the Lease with Customs to extend the term by ten years, effective February 1, 2018, and modify the annual rent to \$833,036, and on the terms and conditions set forth in the Director’s Memorandum; and, be it further
- RESOLVED, that the Commission Secretary is hereby directed to request approval of the Amendment No. 1 to 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

JAN 16 2018

at its meeting of _____



Secretary