

File No. 100983

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: September 29, 2010

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
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OTHER

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Completed by: Victor Young

Date: September 24, 2010

Completed by: Victor Young

Date: _____

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

1 [Approve Modification of Lease with Japan Airlines]

2 **Resolution approving and authorizing the execution of Modification No. 1 to Lease No.**
3 **L01-0297 with Japan Airlines Company Limited to reduce the demised premises and**
4 **the annual rent at Building 944 on Plot 50B-1 at San Francisco International Airport.**
5

6 WHEREAS, Japan Airlines Company Limited ("Japan Airlines") has conducted its
7 cargo handling operation and ground service equipment maintenance at Plot 50B-1 and in
8 Building 944 in the North Field Cargo Area for the past twenty nine years pursuant Lease L01-
9 0297, approved by Commission Resolution 01-0297, adopted on September 4, 2001, and
10 Board of Supervisors' Resolution No. 875-01, adopted November 16, 2001 (the "Lease"), and
11 a predecessor lease L80-0238; and

12 WHEREAS, the Lease has a term of ten (10) years, expiring on October 25, 2011 and
13 an annual rental of \$1,899,989.50; and

14 WHEREAS, the Demised Premises is comprised of 59,438 square feet of cargo
15 warehouse, 13,500 square feet of office space, 5,183 square feet of covered truck dock area,
16 3,249 square feet of a ground service equipment ("GSE") building, .855 acres of land for
17 employee parking and one (1) exclusive aircraft parking position. Japan Airlines also has the
18 use of one aircraft parking position on a non-exclusive basis; and

19 WHEREAS, on January 19, 2010, Japan Airlines filed for bankruptcy protection in
20 Japan, which allows Japan Airlines to reject the Lease; and

21 WHEREAS, in lieu of rejection of the Lease, Japan Airlines wishes to execute a
22 modification to the Lease to 1) relinquish the GSE building, the land used for employee
23 parking and the two (2) aircraft parking positions, and 2) reduce the annual rent accordingly to
24 \$1,571,736.62 (the "Modification") for the remainder of the term; and
25

1 WHEREAS, as modified, the Demised Premises will be comprised of 59,438 square
2 feet of warehouse, 13,500 square feet of office space and 5,183 square feet of covered truck
3 dock area, and as modified, the annual rent will be \$1,571,736.62; and

4 WHEREAS, the Modification is deemed to be in the Commission's best interest, and
5 does not materially increase the obligations or liabilities of the Commission; and

6 WHEREAS, on July 13, 2010, pursuant to Resolution No. 10-0251, the Airport
7 Commission approved the Modification of Lease L01-0297. A copy of the form of Modification
8 No. 1 is on file with the Clerk of the Board of Supervisors in File No. 100983, which is
9 hereby declared to be a part of this resolution as if set forth fully herein; now, therefore, be it

10 RESOLVED, that this Board of Supervisors hereby approves Modification No. 1 to L01-
11 0297 between Japan Airlines and the City and County of San Francisco, acting by and
12 through its Airport Commission, resulting in a modified Demised Premises comprised of
13 59,438 square feet of warehouse, 13,500 square feet of office space and 5,183 square feet of
14 covered truck dock area at Building 944, and a modified annual rent of \$1,571,736.62.

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

September 23, 2010

TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst
SUBJECT: September 29, 2010 Budget and Finance Committee Meeting

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Item 2
File 10-0983

Department:
San Francisco International Airport

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize a modification to the existing Lease No. L01-0297 between the San Francisco International Airport (Airport) and Japan Airlines Company Limited (Japan Airlines), for space to provide handling of cargo on freighter and passenger aircraft and other ground support operations, by reducing the annual rent payable by Japan Airlines to the Airport by \$328,253, from \$1,899,990 to \$1,571,737.

Key Points

- Japan Airlines is entering the final year of an existing ten-year lease with the Airport for space for the handling of cargo on freighter and passenger aircraft, which includes (a) warehouse space, (b) office space, (c) covered truck docking space, (d) area to store and maintain ground service equipment, and (e) space for employee and aircraft parking. Under the current lease, Japan Airlines pays the Airport annual rent of \$1,899,990. Japan Airlines will not be renewing this lease when it expires on October 25, 2011.
- Japan Airlines declared bankruptcy on January 19, 2010 and has not had freight operations at the Airport since January 1, 2008. According to Ms. Diane Artz, Senior Property Manager at the Airport Aviation Management Department, pursuant to bankruptcy protection laws, such a declaration of bankruptcy allows airlines in bankruptcy to (a) continue operating while restructuring in order to reduce debt, and (b) terminate the subject lease. However, in lieu of terminating the lease, Japan Airlines is seeking the proposed lease modification that would (a) reduce the amount of leased space by 3,249 square feet, from 81,370 to 78,121 square feet and (b) relinquish 3.855 acres used for employee and aircraft parking, resulting in a reduction in the annual rental rate by \$3.23 per square foot per year, from \$23.35 to \$20.12 per square foot per year.
- In May 2010, the Board of Supervisors approved a new separate passenger terminal operations lease, authorizing Japan Airlines to continue its passenger terminal operations at the Airport for another ten years, beginning July 1, 2011 (File No. 10-0351). The new separate passenger terminal operations lease will not be impacted by the proposed lease modification.

Fiscal Impacts

- The proposed lease modification would reduce the rent payable to the Airport by Japan Airlines by \$328,253, from \$1,899,990 to \$1,571,737. However, because any budgetary shortfall resulting from the proposed lease modification would be eliminated through increased rental rates and related fees charged to other airlines under the Airport's residual rate setting methodology, the proposed lease modification does not have a direct fiscal impact on the Airport.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Charter Section 9.118(c) states that the modification of any lease of real property which, when entered into, was for a period of ten or more years or had anticipated revenue to the City and County of \$1,000,000 or more, requires approval by resolution of the Board of Supervisors.

Background

On September 4, 2001, the Board of Supervisors approved Resolution No. 875-01, authorizing the current lease¹ between Japan Airlines Company Limited (Japan Airlines) and the San Francisco International Airport (Airport). The current lease began on October 26, 2001 and terminates October 25, 2011, for a term of ten years. The lease includes 81,370 square feet of ground support space for both freighter and passenger operations equipment at the Airport comprising (1) 59,438 square feet of cargo warehouse space, (2) 13,500 square feet of office space, (3) 5,183 square feet of covered truck dock space, and (4) 3,249 square feet of space for ground services equipment repair (baggage carts, potable water trucks, etc.). The current lease also includes 3.855 acres used for parking for employees and freight aircraft. However, the cost of such parking is included in the rental rates for the four types of ground support space listed above. The annual rent payable by Japan Airlines to the Airport is currently \$1,899,990, or an average of \$23.35 per square foot, based on 81,370 square feet of ground support space, which is adjusted annually to correspond to increases in the U.S. Consumer Price Index.

On January 1, 2008, Japan Airlines ceased freighter operations at the Airport. On January 19, 2010, Japan Airlines filed for bankruptcy protection in the U.S. Bankruptcy Court. According to Ms. Diane Artz, Senior Property Manager at the Airport Aviation Management Department, pursuant to bankruptcy protection laws, filing bankruptcy allows Japan Airlines to (a) continue operating while restructuring in order to reduce its debt, and (b) terminate the subject lease. However, instead of terminating the subject lease, Japan Airlines has requested the proposed lease modification to its existing lease in order to eliminate the space Japan Airlines had previously used for ground support for freighter operations, while at the same time maintaining the space currently used to provide ground support for continued passenger operations. Ms. Artz advises that Japan Airlines does not intend to renew the subject ground support lease when it expires on October 25, 2011. According to Ms. Artz, Japan Airlines may contract with another airline or business to provide ground support for its passenger operations after the expiration of the subject lease on October 25, 2011.

¹Pursuant to Section 2A.173 of the City's Administrative Code, which grants the Airport the power to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bidding process, the subject lease was not awarded through a competitive bidding process.

DETAILS OF PROPOSED LEGISLATION

As discussed above, the proposed resolution would authorize Japan Airlines to relinquish the space it previously used for ground support for freighter operations while maintaining the space currently used to provide ground support for cargo transported on passenger aircraft operations. Specifically, the proposed lease modification would authorize Japan Airlines to (a) reduce its leased ground support space by 3,249 square feet, from 81,370 to 78,121 square feet and (b) relinquish 3.855 acres used for employee and aircraft parking, resulting in a reduction in the annual rental rate by \$3.23 per square foot, from \$23.35 to \$20.12 per square foot. As shown in Table 1 below, the proposed modification results in a rent reduction of \$328,253 to Japan Airlines, from \$1,899,990 now being paid to the Airport to \$1,571,737, based on a reduction of 3,249 square feet from 81,370 to 78,121 square feet.

Table 1: Proposed Reduction In Leased Space

Type of Space	Square Feet Under Current Lease Terms	Square Feet Under Proposed Modified Lease Terms
Warehouse Space	59,438	59,438
Office Space	13,500	13,500
Covered Truck Dock	5,183	5,183
Ground Services Equipment Space	3,249	--
Total Space (Square Feet)	81,370	78,121
x Blended Annual Rental Rate	\$23.35	\$20.12
Annual Rent	\$1,899,990*	\$1,571,795**

* $\$23.35 \times 81,370 = \$1,899,990$

** $\$20.12 \times 78,121 = \$1,571,795$

The proposed resolution would also approve updates to the lease to reflect laws that have been enacted since the inception of the subject lease in 2001. These updates include (a) compliance with the City's Campaign and Governmental Conduct Code which prohibits a person wishing to enter into a contract or lease from contributing to an elected officials who will approve such a contract or lease, and (b) compliance with the City's Food Service Waste Reduction Ordinance, which requires food vendors within City facilities to use disposable foodware that is biodegradable, compostable, or recyclable. These updates do not impact the rental rates and terms.

FISCAL IMPACT

As noted above, Japan Airlines currently pays the Airport \$1,899,990 of annual lease revenues to the Airport. Under the proposed resolution, Japan Airlines would reduce their ground support space by 3,249 square feet, resulting in a revised annual rent payable by Japan Airlines to the Airport of \$1,571,737, or \$328,253 less than the current rent of \$1,899,990. According to Ms. Artz, the Airport intends to lease the relinquished 3,249 square feet of ground support space, as well as 3.855 acres currently used for parking for employees and aircraft, which would be

vacated by Japan Airlines, to other airlines or tenants as soon as possible, but has not yet identified a replacement tenant.

As a result of the Airport's "residual rate setting methodology" (the breakeven policy) used by the Airport to determine rental rates, landing fees, and related fees for all Airlines, even if a replacement tenant is not found, the proposed rent reduction for Japan Airlines will not result in any budgetary shortfall for the Airport. The residual rate setting methodology 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 rate setting methodology, prior to the beginning of each fiscal year, the Airport determines the total airline rent 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 lease with the airlines, 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. Because any budgetary shortfall resulting from the proposed lease modification would be eliminated through increased rental rates and related fees, the proposed lease modification does not have a direct fiscal impact on the Airport.

POLICY CONSIDERATION

As distinct from the subject lease, Japan Airlines maintains a separate passenger terminal operations lease at the International Terminal at the Airport for passenger terminal space, including gates, kiosks, and check-in areas. That lease would not be affected by the proposed resolution. In May 2010, the Board of Supervisors approved a new passenger terminal operations lease for Japan Airlines for passenger terminal space (File No. 10-0351). The new Japan Airlines passenger terminal operations lease in the International Terminal commences on July 1, 2011 with a term of ten years, or through June 30, 2021.

Currently, Japan Airlines leases 9,926 square feet of passenger terminal operations space at the Airport's International Terminal. Under the recently approved new passenger terminal operations lease (which is not the subject of the proposed resolution), the Japan Airlines space will be reduced to 7,194 square feet, a reduction of 2,732 square feet. Over the past three years, under the existing lease for passenger terminal operations, Japan Airlines has paid an average rent and landing fees of \$3,744,230 per year to the Airport. The proposed resolution to modify Japan Airlines lease for cargo operations would not affect the Japan Airlines lease for passenger terminal operations.

RECOMMENDATION

Approve the proposed resolution.

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 10-0251

APPROVAL OF MODIFICATION NO. 1 TO LEASE AGREEMENT L01-0297 WITH JAPAN AIRLINES COMPANY, LTD. FOR CARGO WAREHOUSE AND RELATED FACILITIES AT BUILDING 944 ON PLOT 50B-1 TO REDUCE THE DEMISED PREMISES AND THE ANNUAL RENT, AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE MODIFICATION TO THE BOARD OF SUPERVISORS FOR APPROVAL.

WHEREAS, Japan Airlines Company, Ltd., ("Japan Airlines") currently leases cargo warehouse, support offices, a ground service equipment building, two aircraft parking positions, and land for employee parking at Building 944 at Plot 50B-1 pursuant to Lease L01-0297 (the "Lease"); and

WHEREAS, the Lease has a term of ten (10) years, expires on October 25, 2011, and generates an annual rental of \$1,899,989.50; and

WHEREAS, the Demised Premises is comprised of 59,438 square feet of warehouse, 13,500 square feet of office space, 5,183 square feet of truck dock area, 3,249 square feet of ground service equipment ("GSE") building, .855 acres of land for employee parking and one aircraft parking position. Japan Airlines also has the use of one aircraft parking position on a non-exclusive basis; and

WHEREAS, on January 19, 2010, Japan Airlines filed for bankruptcy protection in Japan, which form of protection allows Japan Airlines to reject the Lease; and

WHEREAS, in lieu of rejection of the Lease, Japan Airlines desires to execute Modification No.1 to the Lease to relinquish the GSE building, the land used for employee parking and both aircraft parking positions and reduce the annual rental accordingly to \$1,571,736.62 (the "Modification"); and

WHEREAS, said Modification is deemed to be in the Commission's best interest, does not otherwise materially increase the obligations or liabilities of the Commission; now, therefore, be it

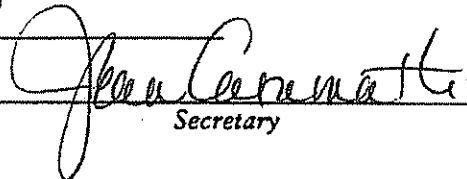
RESOLVED, that this Commission approves Modification No. 1 to Japan Airlines Lease Agreement L01-0297 which modifies the Demised Premises by the relinquishment of the GSE building, the land used for employee parking and both aircraft hardstands and reduces the annual rental to \$1,571,736.62, consistent with the terms of the attached memorandum; and be it further

RESOLVED, that the Commission Secretary is hereby directed to request Board of Supervisors' approval of said Modification pursuant to City Charter Section 9.118.

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

JUL 20 2010

at its meeting of _____


Secretary



San Francisco International Airport

MEMORANDUM

July 20, 2010

P.O. Box 8097
San Francisco, CA 94128
Tel: 650.821.5000
Fax: 650.821.5005
www.flysfo.com

TO: AIRPORT COMMISSION

Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Caryl Ito
Hon. Eleanor Johns
Hon. Richard J. Guggenheim

10-0251

JUL 20 2010

FROM: Airport Director

SUBJECT: Modification No. 1 to Lease Agreement L01-0297 with Japan Airlines Company, Ltd. for Cargo Facilities at Building 944 at Plot 50B-1

DIRECTOR'S RECOMMENDATION: RESOLUTION: 1) APPROVING MODIFICATION NO. 1 TO LEASE AGREEMENT L01-0297 WITH JAPAN AIRLINES COMPANY, LTD. FOR CARGO WAREHOUSE AND RELATED FACILITIES AT BUILDING 944 ON PLOT 50B-1 TO REDUCE THE DEMISED PREMISES AND THE ANNUAL RENT, AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE MODIFICATION TO THE BOARD OF SUPERVISORS FOR APPROVAL

Executive Summary

Japan Airlines Company, Ltd., ("Japan Airlines") currently leases cargo warehouse, support offices, a ground service equipment building, two aircraft parking positions, and land for employee parking at Building 944 on Plot 50B-1, pursuant to Lease Agreement L01-0297 (the "Lease"), which Lease expires on October 25, 2011. On January 19, 2010, Japan Airlines filed for bankruptcy protection in Japan which allows Japan Airlines to reject the Lease in whole. In lieu of such rejection, Japan Airlines is seeking a modification to the Lease which 1) modifies the Demised Premises by relinquishment of the ground service equipment building, two aircraft parking positions, and the land used for employee parking, and 2) reduces the annual rent by \$328,252.80 from \$1,899,989.50 to \$1,571,736.62 (the "Modification").

THIS PRINT COVERS CALENDAR ITEM NO. 15

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

GAVIN NEWSOM
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GUGGENHIME

JOHN L. MARTIN
AIRPORT DIRECTOR

Background

Japan Airlines currently conducts its air cargo related business, including receiving, delivering, dispatching, processing, handling, and storage of air cargo and mail at Building 944 at Plot 50B-1 pursuant to a Lease with a term of ten (10) years, which Lease expires on October 25, 2011. The current annual rent is \$1,899,989.50 based on a blended rate of \$23.35 per square foot per year for the building square footages. The Demised Premises is comprised of approximately 6.4 acres of improved land on which is situated the following facilities:

- 59,438 square feet of warehouse space
- 13,500 square feet of office space
- 5,183 square feet of covered truck docks
- 3,249 square feet of ground service equipment ("GSE") building
- .855 acres of land used for employee parking
- 1.5 acres of land for one exclusive aircraft parking position.

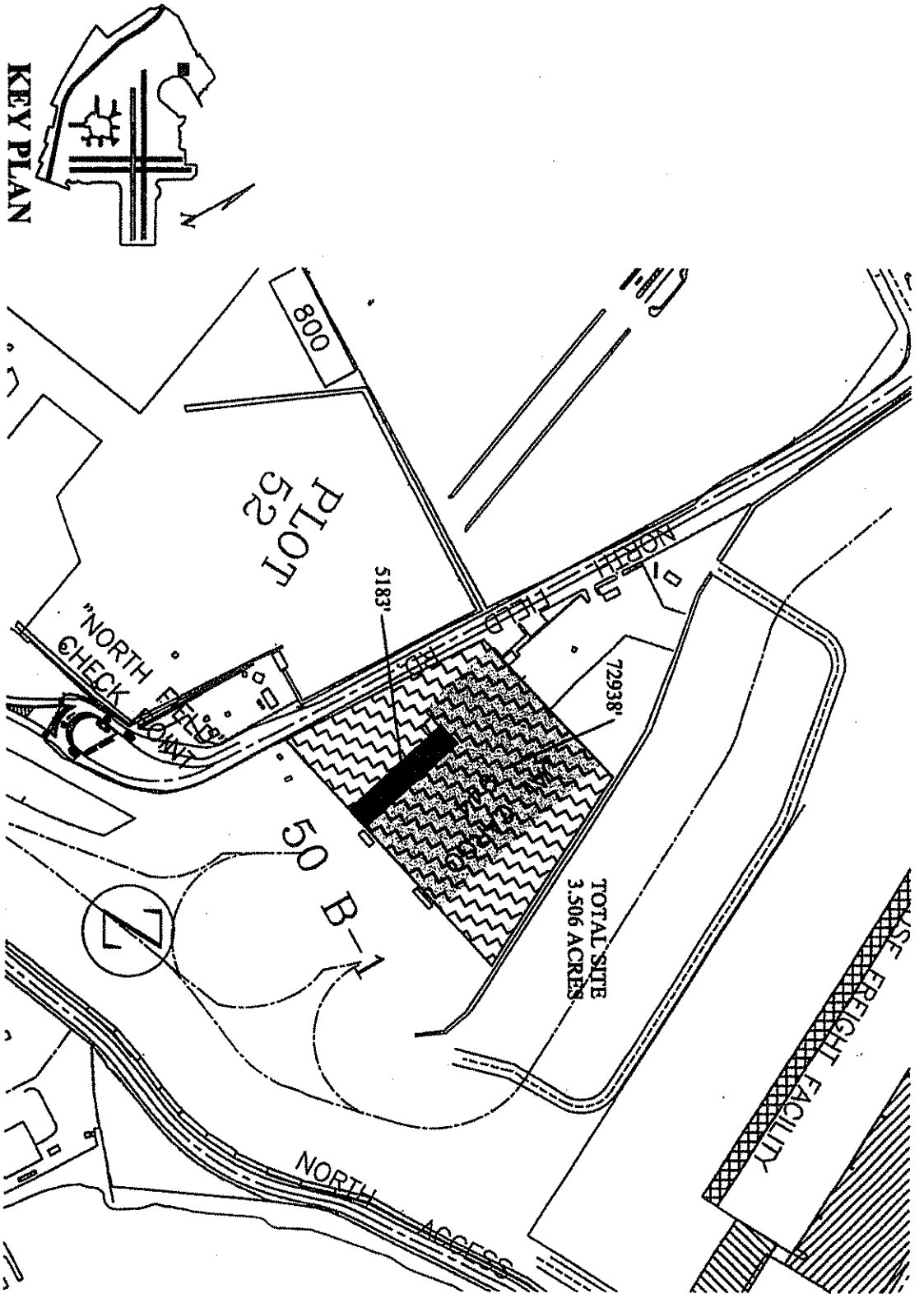
Japan Airlines also has the use of an additional aircraft parking position on a non-exclusive basis (the "Non-Exclusive Area").

On January 19, 2010, Japan Airlines filed for bankruptcy protection in Japan, which bankruptcy is similar to Chapter 15 of the United States' Bankruptcy Code. This form of protection allows Japan Airlines to reject the Lease. In lieu of rejection of the Lease, Japan Airlines wishes to reduce the Demised Premises and the related rental obligation pursuant to a Lease modification in which it will relinquish the exclusive and non-exclusive aircraft parking positions, the GSE building, and the land used for employee parking.

As modified, the Demised Premises will be comprised of:

- 59,438 square feet of warehouse space
- 13,500 square feet of office space
- 5,183 square feet of covered truck docks

The annual rental will be reduced to \$1,571,736.62 based on renegotiated rates of \$20.47 per square foot per year for the cargo warehouse and support offices and \$15.22 per square foot per year for the covered truck dock area. These rates were calculated by taking the rates for the respective types of space at the inception of the Lease term and adjusting the rates to reflect the cumulative increase in the Consumer Price Index from Lease inception to present.



TENANT PERMIT LOCATION DRAWING

LOCATION: NORTH FIELD ROAD AND PLOT 50B-1

BUILDING 944

CITY & COUNTY OF SAN FRANCISCO

AIRPORTS COMMISSION

SAN FRANCISCO INTERNATIONAL AIRPORT

DWG: JALB944

SCALE: 1"=100'

DATE: 06/04/2010

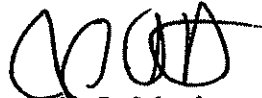
LOCATION	TENANT	CAT	AREA	CONTRACT	EFF DATE
PLOT 50B-1	JAL		72938'	L01-0297	
PLOT 50B-1	JAL		5183'	L01-0297	

The Modification also adds certain City and other governmental regulations that have been enacted since inception of the Lease in 2001. All other terms and conditions of the Lease will remain unchanged.

Said Modification is deemed to be in the Commission's best interest and does not otherwise materially increase the obligations or liabilities of the Commission.

Recommendation

I recommend adoption of the accompanying resolution that approves Modification No. 1 to Lease Agreement L01-0297 with Japan Airlines to reduce the Demised Premises and related rental obligation for its cargo facility at Building 944 at Plot 50B-1, and (2) directs the Commission Secretary to request Board of Supervisors' approval of such Modification in accordance with City Charter Section 9.118.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Deputy Airport Director
Business and Finance

Attachments

**MODIFICATION NO. 1 TO
LEASE AGREEMENT FOR CARGO BUILDING
AT PLOT 50B-1
SAN FRANCISCO INTERNATIONAL AIRPORT**

Japan Airlines International Company, Ltd.

THIS MODIFICATION OF AGREEMENT (this "**Modification**") dated as of July 1, 2010, is entered into by and between the City and County of San Francisco, acting by and through its Airport Commission ("**City**"), and Japan Airlines International Company, Ltd., ("**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 that certain Lease Agreement L01-0297 (the "**Agreement**"), dated as of November 20, 2001, Airline leases from City certain premises located at Building 944 at Plot 50B-1 comprised of: 59,438 square feet of warehouse space, 13,500 square feet of office space, 3,249 square feet of Ground Services Equipment (GSE) space, 5,183 square feet of covered truck dock space, 37,243 square feet of improved land and one exclusive aircraft parking position. Airline is also granted the use of a second aircraft parking position on a non-exclusive, preferential basis. As used below, the term "**Agreement**" shall mean the Lease, as amended and modified by this Modification.
- C. The Agreement has a current annual rent of \$1,899,989.50 and a term of ten (10) years which expires on October 25, 2011.
- D. On January 19, 2010, the Airline filed for bankruptcy protection in Japan, which bankruptcy is similar to Chapter 15 of the United States' Bankruptcy Code. This form of protection allows Airline to reject the Agreement.
- E. In lieu of rejection of the Agreements, Airline wishes to modify its Agreement to reduce the Demised Premises and related rental obligation pursuant to a Modification, by relinquishment of the exclusive and non exclusive aircraft positions, the GSE building and the improved land referenced above.
- F. Airline and City now desire to modify the terms of the Agreement to reflect such relinquishment of certain leasehold space.
- G. Pursuant to the proposed Commission Resolution, the Airport Commission has determined that entering into this Modification is in the best interest of City, and has authorized execution of this Modification. Pursuant to the Board Resolution, the City's Board of Supervisors has authorized the execution of the Modification.

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 the date on which all of the following conditions are satisfied: (1) the Airport Commission and Board of Supervisors shall have approved this Modification; (2) both parties have executed this Modification, (3) Airline has returned possession of the relinquished space to City and City has accepted such possession.

Actual Date: _____ (to be inserted upon determination)

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

2. Demised Premises. Airline's exclusive leasehold space in at Plot 50B-1, as shown on *Exhibit A*, dated July 23, 2001, is modified as follows:

(a) 3,249 square feet of the GSE building situated on 5.73 areas of land is deleted, as described on *Exhibit A*, dated July 23, 2001.

(b) .855 acres of improved land is deleted, as described *Exhibit A*, dated July 23, 2001.

(c) 1.5 acres of ramp area, comprised of Hardstand #2, is deleted as described on *Exhibit A*, dated July 23, 2001.

(d) For the purpose of this Modification, *Exhibit A* to the Agreement relating to Exclusive Space is deleted in its entirety and substituted with *Drawing No. JALB944*, dated June 4, 2010.

(e) As modified hereby, Airline's Exclusive Use Space comprises the following areas, all as shown on *Drawing Number JALB944*, dated June 4, 2010 attached hereto:

Exclusive Use Space

Type	Square Feet
Cargo warehouse space	59,438 Sq. Ft.
Cargo support offices	13,500 Sq. Ft.
Truck dock overhang area	5,183 Sq. Ft.

3. Non-Exclusive Areas. Airline's Non-Exclusive Areas, as shown on *Exhibit C*, dated July 23, 2001, is modified as follows:

(a) Hardstand #1, comprised of approximately 1.5 acres, is deleted, as described on *Exhibit C*, dated July 23, 2001.

(b) For the purpose of this Modification, *Exhibit C* to the Agreement relating to Non-Exclusive Areas is deleted in its entirety.

4. **Annual Rent.** The Annual Rent section of the Major Business Term Summary shall be deleted in its entirety and substituted with the following:

Annual Rent: On the Effective Date of this Modification, the Annual Rent will be One Million Five Hundred Seventy One Thousand Seven Hundred Thirty Seven (\$1,571,737.00) Dollars (the "**Modified Annual Rent**") per year (\$130,978.08 per month) based on the following rates:

- 1) \$20.47 per square foot per year for the warehouse and support office space
- 2) \$15.21 per square foot per year for the truck dock overhang area.

5. **Miscellaneous Provisions.** The following provision(s) 5.1 and 5.2 shall be added to the Agreement:

5.1 **Contributions from Contractors.** San Francisco Campaign and Governmental Conduct Code (the "**Conduct Code**") Section 1.126 prohibits any person who contracts with the City for selling or leasing any land or building to or from the City whenever such transaction would require the approval by a City elective officer or the board on which that City elective officer serves, from making a contribution to such an officer, or candidate for such an office, or committee controlled by such officer or candidate at any time from the commencement of negotiations for such contract until the termination of negotiations for such contract or three months has elapsed from the date the contract is approved by the City elective officer, or the board on which that City elective officer serves. San Francisco Ethics Commission Regulation 1.126-1 provides that negotiations are commenced when a prospective contractor first communicates with a City officer or employee about the possibility of obtaining a specific contract. This communication may occur in person, by telephone or in writing, and may be initiated by the prospective contractor or a City officer or employee. Negotiations are completed when a contract is finalized and signed by the City and the contractor. Negotiations are terminated when the City and/or the prospective contractor end the negotiation process before a final decision is made to award the contract. Through its execution of this Agreement, Tenant acknowledges that it is familiar with the provisions of section 15.103 of City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and sections 87100 et seq and sections 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provisions and agrees that if it becomes aware of any such fact during the term of this Agreement it shall immediately notify City.

5.2 **Food Service Waste Reduction Requirements.** Effective June 1, 2007, Tenant agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in the San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Lease as though fully set forth. This provision is a material term of the Lease. By entering into this Lease, Tenant agrees that if it breaches this provision, City will suffer actual damages that will be impractical to extremely difficult to determine; further, Tenant agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that City will incur based on the violation, established in light of the circumstances existing at the time this Lease was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by City because of Tenant's failure to comply with this provision.

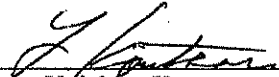
6. **Modification.** As modified hereby, the Agreement remains in full force and effect.

///

X:\TENANTS\AIRLINES\LEASES\JAL CARGO LEASE MOD #1 2010.DOC

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the date first written above.

AIRLINE: Japan Airlines International Company, Limited,
a company formed under the Laws of Japan

By: 
Name: Yoichiro Komatsuzaki
Title: Vice President and General Manager
Cargo, The Americas

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 by Board of Supervisors on
_____, pursuant to Resolution
No. _____

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

By _____
Deputy City Attorney

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

San Francisco International Airport



2010 AUG 26 PM 1:51

BY AK

August 5, 2010

P.O. Box 8097
San Francisco, CA 94128
Tel 650.821.5000
Fax 650.821.5005
www.flysfo.com

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

100983

Subject: Approval of Lease Modification No. 1 to Lease L01-0297 between Japan Airlines Company Limited and the City and County of San Francisco, acting by and through its Airport Commission

AIRPORT

COMMISSION

CITY AND COUNTY

OF SAN FRANCISCO

GAVIN NEWSOM

MAYOR

LARRY MAZZOLA

PRESIDENT

LINDA S. CRAYTON

VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GUGGENHIME

JOHN L. MARTIN

AIRPORT DIRECTOR

Dear Ms. Calvillo:

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval of Modification No. 1 to Lease No. L01-0297 (the "Modification") between the City and County of San Francisco, acting by and through its Airport Commission, and Japan Airlines Company Limited ("Japan Airlines") for space to be occupied by Japan Airlines in Building 944. This Modification was approved by Airport Commission Resolution No. 10-0251, adopted July 20, 2010.

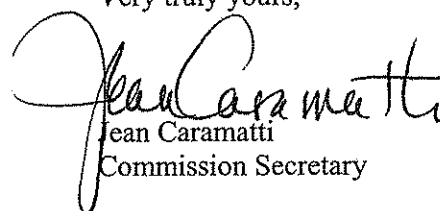
The Modification provides for a reduction of space by relinquishment of three thousand two hundred forty nine (3,249) square feet of a ground service equipment building, two (2) aircraft parking positions situated on approximately three (3) acres of land, and .855 acres of land used for employee parking, all adjacent to Building 944 on Plot 50B-1. Japan Airlines will retain fifty nine thousand four hundred thirty eight (59,438) square feet of cargo warehouse, thirteen thousand five hundred (13,500) square feet of support office space and five thousand one hundred eighty three (5,183) square feet of covered truck dock area. The annual rent will be reduced by \$328,252.80 to a modified annual rent of \$1,571,736.62 for the remainder of the term which expires on October 25, 2011.

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

- Board of Supervisors Resolution; and
- Approved Airport Commission Resolution No. 10-0251; and
- Commission Memorandum; and
- Modification No. 1 to Lease No. L01-0297.

You may contact Diane Artz of the Airport Aviation Management Department at (650) 821-4525 regarding this matter.

Very truly yours,


Jean Caramatti
Commission Secretary

Enclosures

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

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s): Mayor Gavin Newsom; Members, SF Board of Supervisors	City elective office(s) held: Mayor, City and County of San Francisco; Members, SF Board of Supervisors
Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: Japan Airlines International Company, Ltd.	
<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>	
Board Members: (1) Chairman, Kazuo Inamori, President Masaru Onishi (JAL Group COO), Executive Vice President Hisao Taguchi, Executive Officer-Accounting Norikazu Saito, Senior Vice President-The America Hiroyuki Hioka. <i>(Please refer to attached list for full list of Executive Officers)</i>	
Contractor address: 2-4-11, Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-8605, JAPAN	
Date that contract was approved: TBD	Amount of contract: \$1,571,737
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 (Mayor, Gavin Newsom)
- 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

Filer Information <i>(Please print clearly.)</i>	
Name of filer:	Contact telephone number: ()
Address:	E-mail:

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

