

File No. 111290

Committee Item No. 4

Board Item No. 21

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: January 4, 2012

Board of Supervisors Meeting

Date 1/10/12

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 & Legislative Analyst 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"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____

Completed by: Victor Young

Date: December 30, 2011

Completed by: Victor Young

Date: 1-5-12

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

1 [Airport Lease Modification - United Air Lines, Inc.]

2
3 Resolution approving and authorizing the execution of Modification No. 1 of Lease L00-
4 0464 at Plot 6 with United Air Lines, Inc., at San Francisco International Airport to: 1)
5 extend the Term; 2) reduce the Demised Premises; 3) modify the annual rent; 4) provide
6 for a Deferred City Improvements Payment to City; and 5) provide for certain terms of
7 retroactivity relating to the rent and the Deferred City Improvements Payment.

8
9 WHEREAS, Pursuant to Ground Lease L00-0464 (the "Lease"), United Air Lines, Inc.
10 ("United") occupies approximately 16.04 acres of land at Plot 6 at the Airport, together with
11 ancillary City-owned buildings for various aviation related functions, and

12 WHEREAS, The Lease expired on June 30, 2011 and United wishes to continue
13 occupancy of a portion of the Plot 6 leasehold, including Building 585, for an additional ten
14 (10) years pursuant to a Lease modification; and

15 WHEREAS, Airport staff has negotiated the terms of Modification No. 1 that will: 1)
16 extend the Term for an additional ten (10) years, 2) reduce the Demised Premises from
17 approximately 16.04 acres to 12.54 acres of land, 3) reduce the rent from \$2,081,080 to
18 \$1,638,208 per year,
19 4) add an obligation to pay City a Deferred City Improvements Payment equal to \$696,000,
20 and
21 5) provide for certain terms of retroactivity to July 1, 2011, as set forth in the Director's
22 Memorandum (the "Modification"); and

23 WHEREAS, On June 7, 2011, by Airport Commission Resolution No. 11-0135, the
24 Airport Commission approved the Modification to the Lease between United and the City and
25

1 County of San Francisco, acting by and through its Airport Commission, subject to the terms
2 set forth above, which Modification will be effective retroactively to July 1, 2011; and

3 WHEREAS, A copy of the form of Modification No. 1 to the Lease is on file with the
4 Clerk of the Board of Supervisors in File No. 111290, which is hereby declared to be a part of
5 this resolution as if set forth fully herein; now, therefore, be it

6 RESOLVED, That this Board of Supervisors hereby approves and authorizes the
7 execution of Modification No. 1 to Lease L00-0464 between United Air Lines, Inc. and the City
8 and County of San Francisco, acting by and through its Airport Commission, which will: 1)
9 extend the Term for an additional ten (10) years, 2) reduce the Demised Premises from
10 approximately 16.04 acres to
11 12.54 acres of land, 3) reduce the rent from \$2,081,080 to \$1,638,208 per year, 4) add an
12 obligation to pay City a Deferred City Improvements Payment equal to \$696,000, and 5)
13 provide for certain terms of retroactivity to July 1, 2011, as set forth in the Director's
14 Memorandum.

15
16
17
18
19
20
21
22
23
24
25

Item 4	Department:
File 11-1290	San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the First Amendment to the existing lease between the San Francisco International Airport (Airport) and United Airlines, Inc. (United Airlines) for the premises known as Plot 6, to (a) extend the lease term by ten years, retroactively from July 1, 2011 to June 30, 2021, (b) reduce the square footage of the leased space from 16.04 acres to approximately 12.5 acres, (c) reduce the annual rent to correspond with a reduction in acreage based on 12.514 acres, and (d) provide for United Airlines to pay the Airport \$696,000 in deferred payments for hazardous materials remediation for Building 575 on Plot 6.

Key Points

- On June 1, 2001, the Board of Supervisors approved a resolution (File 01-0052) to lease to United Airlines land known as Plot 6. The original lease was for a period of 12 years and one month, retroactive from June 1, 1999 through June 30, 2011 and included approximately 16.04 acres of land, including Buildings 575 and 585.
- On October 30, 2008, United Airlines separately subleased back to the Airport 39,425 square feet of space in Building 575 and ancillary parking for Airport staff at a rental rate of \$82,135 per month. In July, 2010, the Airport increased their subleased space by 1,329 square feet, from 39,425 square feet to 40,754 square feet, increasing the Airport's obligation to United Airlines under the sublease by \$2,769, from \$82,135 per month to \$84,904 per month, or a total of \$1,018,850 per year.
- Under this separate sublease between United Airlines and the Airport, United Airlines was required to pay the Airport \$2,436,000 for hazardous materials remediation in Building 575 in monthly payments of \$73,840. When the existing sublease terminated on June 30, 2011, United Airlines had paid \$1,740,000 and had a remaining unpaid balance to the Airport of \$696,000.

Fiscal Impacts

- The proposed 12.5 acres of leased space includes an electrical substation shared by United Airlines and the Airport, comprising approximately 0.026 acres, which is not included in the rent, for a net of 12.514 acres.
- Currently, United Airlines pays the Airport annual rent of \$2,081,080 for 16.04 acres of leased property, or an average of \$129,743 per acre per year. Under the proposed lease amendments, United Airlines would pay the Airport an average of \$130,910 per acre per year for 12.514 acres, or annual rent of \$1,638,208 in the first year. Therefore, approval of the proposed lease amendment will result in a reduction of \$442,872 in annual revenues to the Airport.
- However, assuming termination of the existing sublease between United Airlines and the Airport for 40,754 square feet of Building 575 and the adjacent parking lot, and commencement of a separate new month-to-month permit for United Airlines to lease approximately 26,872 square feet of space in Building 575, will actually result in net annual additional revenues of \$1,125,617 for the Airport.
- United Airlines will also pay the balance of \$696,000 owed to the Airport for hazardous materials remediation, expected in 60 monthly payments of \$11,600 per month.

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 land 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 states that leases, which would result in revenues to the City in excess of \$1,000,000, are subject to Board of Supervisors approval.

Background

On June 1, 2001, the Airport entered into a lease agreement with United Airlines, Inc. (United Airlines) for land known as Plot 6, including Buildings 575 and 585, located on the west side of the Airport near McDonnell Road, which was approved by the Board of Supervisors (File 01-0052).

This June 1, 2001 lease between the Airport and United Airlines extended for a period of 12 years and one month, retroactive from June 1, 1999 through June 30, 2011, and included approximately 16.04 acres of land, including Building 575, containing 63,822 square feet of space, and Building 585 containing 149,270 square feet of space. United Airlines used the space for aviation functions including cargo operations, emergency procedures training, administrative offices, plant and aircraft maintenance, and United Airlines employee parking.

According to Ms. Diane Artz, Senior Property Manager at the Airport, United Airlines constructed these two buildings in 1969, which reverted to the Airport in 1999, under the terms of the original lease with United Airlines.

The first year rent payable by United Airlines to the Airport was \$1,584,656 from June 1, 1999 through May 31, 2000, or \$132,055 per month. The lease provided for annual Consumer Price Index (CPI) increases, resulting in annual rent paid by United Airlines to the Airport from July 1, 2010 through June 30, 2011 of \$2,081,080, or \$173,423 per month. Based on the existing 16.04 acres leased, the current rental rate is approximately \$129,743 per acre.

On October 30, 2008, the Airport entered into a separate sublease agreement with United Airlines to lease back 39,425 square feet of space of the total 63,822 square feet in Building 575, including the adjacent parking lot, to be used by the Airport as office space and parking for Airport employees, for the two years from July 1, 2009 through June 30, 2011 at a cost of \$82,135 per month, or \$985,620 per year. According to Ms. Artz, the rent to be paid by the Airport to United Airlines under this sublease was based on the fair market value of approximately \$25 per square foot per year. This sublease did not require approval by the Board of Supervisors because the term was less than ten years and the cost to the Airport was less than \$10,000,000.

In addition, under this separate sublease with United Airlines, the Airport required United Airlines to reimburse the Airport \$2,436,000 for the Airport's cost of remediation of hazardous materials in Building 575¹, which was completed before the Airport occupied the subleased

¹ United had originally constructed the buildings in 1969 and upon inspection prior to finalizing the sublease, the Airport found hazardous materials that needed to be remediated.

space on July 1, 2009. To facilitate United Airlines reimbursement to the Airport, the Airport reduced the monthly sublease payments to United Airlines by \$73,840 per month, such that the Airport paid a net amount to United Airlines of \$8,295 per month (\$82,135 sublease monthly cost less \$73,840 monthly reimbursement payments) to sublease the 39,425 square feet in Building 575.

In July, 2010, the Airport increased their subleased space in Building 575 by 1,329 square feet, from 39,425 square feet to 40,754 square feet, increasing the Airport's sublease costs to United Airlines by \$2,769, from \$82,135 per month to \$84,904 per month, or a total of \$1,018,850 per year. The Airport continued to deduct \$73,840 per month for the hazardous materials remediation from the sublease rent payments to United Airlines, resulting in monthly net rent payments of \$11,064 (\$84,904 less \$73,840). According to Ms. Artz, as of June 30, 2011, the end of the lease term, United had reimbursed the Airport a total of \$1,740,000 for the hazardous materials remediation costs totaling \$2,436,000, such that United Airlines still owes the Airport a balance of \$696,000.

According to Ms. Artz, although the Airport began negotiations with United Airlines in 2010 to modify the lease, there were delays in completing the negotiations caused by resurveying the site and due to repositioning of nearby runways. Given these delays, the lease and the sublease expired on June 30, 2011. However, United Airlines and the Airport agreed that the lease and sublease would continue on the same terms and conditions on a month-to-month basis, until the negotiations could be completed, and the lease amendment approved by the Airport Commission and the Board of Supervisors.

In addition, Ms. Artz advises that if the proposed resolution is approved, United Airlines will separately enter into a month-to-month permit with the Airport, to continue to occupy approximately 26,872 square feet of space on the first and mezzanine levels of Building 575, at a monthly rental rate of \$45,803, or \$549,639 per year, to be paid by United Airlines to the Airport, retroactive to July 1, 2011. This month-to-month permit would not be subject to Board of Supervisors approval.

Ms. Artz advises that since July 1, 2011, United Airlines has continued paying the Airport the full \$173,423 per month in rent pursuant to the terms of the prior lease. Although the Airport has continued to occupy 40,754 square feet of Building 575 and the adjacent parking lot space, and United Airlines has continued to occupy the balance of approximately 26,872 square feet of space on the first and mezzanine levels in Building 575, during this month-to-month holdover period, Ms. Artz advises that the Airport and United Airlines agreed not to make payments for these spaces in Building 575 during this holdover period. According to Ms. Artz, if the proposed resolution is approved, United Airlines will enter into a month-to-month permit for their space in Building 575 as described above, and the Airport will reimburse United Airlines for the required lease payments, less the subleased space by the Airport in Building 575, retroactive to July 1, 2011.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the First Amendment to the existing lease between the Airport and United Airlines for Plot 6, including Buildings 575 and 585, to:

- Extend the lease term for ten years, retroactively from July 1, 2011 through June 30, 2021.
- Reduce the leased space from approximately 16.04 acres to approximately 12.54 acres, a reduction of 3.5 acres² because the Airport will take back Building 575 and the adjacent parking lot. Reduce the annual rent payable by United Airlines to the Airport by \$442,872 from \$2,081,080 to \$1,638,208 to correspond with the reduction in space.
- Provide for United Airlines' payment to the Airport of the remaining balance of \$696,000 for the Airport's costs of hazardous materials remediation, either through one lump-sum payment, or 60 monthly payments of \$11,600.

All other terms, including the annual CPI adjustment, would remain the same under the proposed First Amendment, with the exception of Year 6 of the proposed amended lease, when the rent would be adjusted to the greater of (a) rent in Year 5 as increased by the CPI, or (b) fair market value for the land, which would be determined by the Department of Real Estate.

FISCAL IMPACT

Under the proposed First Amendment to the lease, the land leased by United Airlines will be reduced from approximately 16.04 acres to approximately 12.54 acres, a reduction of 3.5 acres or 21.8 percent, because of the removal of Building 575 and the adjacent parking area from the lease. However, as noted above, United Airlines will actually pay the Airport based on 12.514 acres of leased land, not including the 0.026 acres that is occupied by the Airport's and United Airlines' electric substation. Currently, United Airlines pays the Airport annual rent of \$2,081,080 for 16.04 acres of leased property, or an average of \$129,743 per acre. Under the proposed lease amendment, United Airlines would lease a net total of 12.54 acres and pay the Airport annual rent of \$1,638,208 in the first year, or an average of \$130,910 per acre for 12.514 acres of land. Under the proposed lease amendment, the rent would be adjusted annually by the CPI, except year 6 when the rent would be adjusted to the greater of (a) rent in Year 5 as increased by the CPI, or (b) fair market value for the land.

Although not part of the subject lease amendments, the separate sublease between United Airlines and the Airport will also terminate, such that the Airport will no longer be required to pay \$1,018,850 annual sublease payments to United Airlines for use of 40,754 square feet of Building 575 and the adjacent parking lot space. In addition, as described above, although not part of the subject lease amendments, United Airlines will enter into a separate month-to-month permit to rent approximately 26,872 square feet of space on the first and mezzanine levels of Building 575, at a rental rate of \$549,639 per year.

The Table below compares the acreage and cost of the existing lease and the proposed First Amendment to the lease between United Airlines and the Airport. In addition, the Table below provides comparative cost data for the current sublease and proposed permit for the use of Building 575 between United Airlines and the Airport.

² In addition, the proposed lease does not include rent for approximately 0.026 acres for the Airport's and United Airlines' electric substation located in the parking lot adjacent to Building 575. Therefore, the rent is actually based upon 12.514 acres (12.54 acres of leased space less 0.026 acres for the electric substation).

Table: Comparison of the Existing Lease and the Proposed First Amendment to the Lease and the Sublease and Permit between United Airlines and the Airport

	Lease that Expired as of June 30, 2011	Proposed Amendment to the Lease Retroactive to July 1, 2011	Differences
Net Acres of Leased Space	16.04	12.514	3.526
Annual Rent Payments by United Airlines to the Airport	\$2,081,080	\$1,638,208	(\$442,872)
Annual Sublease Payments by the Airport to United Airlines to be terminated	(\$1,018,850)	\$0	\$1,018,850
United Airlines Permit for Building 575 to commence	\$0	\$549,639	549,639
Net Revenue to the Airport	\$1,062,230	\$2,187,847	\$1,125,617

As shown in the Table above, approval of the proposed lease amendment will result in a reduction of \$442,872 in annual revenues to the Airport.

However, as also shown in the Table above, assuming termination of the existing sublease between United Airlines and the Airport for 40,754 square feet of Building 575 and the adjacent parking lot, and commencement of a separate month-to-month permit for United Airlines to lease approximately 26,872 square feet of space in Building 575, will actually result in net annual additional revenues of \$1,125,617 for the Airport.

In addition, based on total hazardous materials remediation costs of \$2,436,000, as of June 30, 2011, United Airlines had reimbursed the Airport a total of \$1,740,000, leaving a remaining unpaid balance of \$696,000. The proposed amendment requires United Airlines to pay off the balance in one lump sum or pay \$11,600 per month for 60 months until the balance is paid off. Ms. Artz advises that United Airlines will likely pay the balance over the 60 month period.

The revenues generated by both the previous and proposed lease are based on fair market value and are revenues that are considered in the Airport's residual rate setting methodology (breakeven policy), which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline revenues received by the Airport, are equal to the Airport's total annual costs, including debt service and operating expenditures.

RECOMMENDATION

Approve the proposed resolution.

MODIFICATION NO. 1 TO

LEASE OF PLOT 6

SAN FRANCISCO INTERNATIONAL AIRPORT

UNITED AIR LINES, INC.

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 United Air Lines, Inc. ("**Airline**").

Recitals

A. The City and County of San Francisco owns the 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. 00-0464, dated December 19, 2000, and Board of Supervisors' Resolution No. 403-01 on June 1, 2001, Airline became a signatory to the Lease of Plot 6 (Lease No. L00-0464) whereby Airline occupies approximately 16.04 acres of land at Plot 6, together with existing City owned buildings and structures including Buildings 575 and 585, for a period of twelve (12) years and one (1) month commencing retroactively to June 1, 1999 and expiring on June 30, 2011 (the "**Lease**"). As used below, the term "**Lease**" shall mean the Lease as amended and modified by this Modification.

C. Pursuant a Letter Agreement dated October 30, 2008, also known as Sublease No. SL08-0189, Airline subleases portions of Building 575 and ancillary parking (the "**Sublease**") to the City for occupancy by Airport staff, which Sublease expires on June 30, 2011. A copy of the Letter Agreement is incorporated herein and attached hereto as *Exhibit A*.

D. Subject to all required approvals, the Sublease provides for a future Lease modification wherein the Term of the Lease will be extended for a additional ten (10) years (the "**Lease Extension**"), effective July 1, 2011 (the "**Lease Extension Date**"), the Demised Premises will be modified to exclude Building 575 in its entirety and related parking areas, and upon the terms and conditions as set forth below.

E. The Sublease also provides that, pursuant to the modification, Airline shall pay to City, in addition to Annual Rent as provided for in Section 4 [Rent] of the Lease, a Deferred City Improvements Payment, as more fully described in Section 6 below.

F. The City has offered, and Airline has accepted, a Lease Extension and other modified terms of the Lease pursuant to this Modification No. 1 thereto.

G. As the required approvals cannot be obtained from the Board of Supervisors prior to the expiration of the Lease, and pursuant to Section 2.2 of the Lease, the Term will convert to hold over status pursuant to certain negotiated terms and conditions for the hold over period and Lease modification.

H. Airline and City now desire to modify the terms of the Lease to: 1) extend the Term, 2) modify the Demised Premises, 3) modify the Annual Rent, 4) provide for the Deferred City

Improvements Payment, 5) provide for certain terms of retroactivity relating to the rent and Deferred City Improvements Payment, and other ancillary changes.

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 retroactive to 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) Capitalized terms not defined herein shall have the meanings given them in the Agreement.

2. Term. The Term of the Lease shall be extended for ten (10) years commencing on July 1, 2011 and terminating on June 30, 2021 (the "**Lease Extension Period**").

3. Demised Premises.

(a) **Demised Premises After Effective Date.** From and after the Effective Date, the Demised Premises will be comprised of 12.54 acres of land, including 12.514 acres situated on a portion of Plot 6, together with the existing Building 585, and .025 acres situated within the Building 575 parking lot, together with an existing electric substation and a Rights-of-Way thereto.

(b) **Reservation of Right to Recapture Land.** In order to accommodate the commencement of operations of the Airbus A-380 aircraft at the Airport, City reserves the right to recapture a portion of the Demised Premises, and provide alternative land as deemed available and in consultation with Airline. In the event of such recapture, City will adjust the Annual Rent accordingly, effective on the date the City takes possession of such recaptured land.

4. Annual Rent. The Annual Rent for the first Lease Year of the Lease Extension Period shall be One Million Six Hundred Thirty Eight Thousand, Two Hundred Eight Dollars (\$1,638,208), based on a fair market value of \$130,910 per acre per year for 12.514 acres of land.

From and after the Effective Date, Section 4 [Rent] shall be modified by deletion of Sections 4.1, 4.3 and 4.4 in their entirety and replaced by the following Sections 4.1, 4.3 and 4.4:

4.1 **Definitions.** For purposes of this Lease, the following capitalized terms shall have the following meanings:

(a) "**Consumer Price Index**" means that index published by the United States Department of Labor, Bureau of Labor Statistics known as "All Urban Consumers - All Items for the San Francisco/Oakland/San Jose Area (1982-84 = 100)." In the event such index is discontinued, then "**Consumer Price Index**" shall mean an index chosen by Director, which is, in Director's reasonable judgment, comparable to the index specified above.

(b) "**Rent Adjustment Date**" means the first anniversary of the Lease Extension Date, and each anniversary of such adjustment date thereafter.

(c) **“Base Index”** means the most recent Consumer Price Index published three (3) months prior to the Lease Extension Date.

(d) **“Comparison Index”** means the most recent Consumer Price Index published three (3) months prior to each Rent Adjustment Date.

(e) **“Lease Year”** means the period commencing on the Commencement Date and expiring on the day before the first Rent Adjustment Date, and each subsequent 12-month period, commencing on each Rent Adjustment Date and expiring on the day before the subsequent Rent Adjustments Date, or expiring on the Expiration date, as the case may be.

4.3 Adjustments to Annual Rent. On each Rent Adjustment Date, the Annual Rent will be adjusted as follows: if the Comparison Index shall exceed the Base Index, then the annual Rent with respect to the upcoming Lease Year shall be increased to equal the following amount:

$$\text{Annual Rent commencing July 1, 2011} \times \frac{\text{Comparison Index}}{\text{Base Index}}$$

Notwithstanding anything to the contrary herein, in no event will the Annual Rent for any Lease Year of the Term be lower than the Annual Rent with respect to the prior Lease Year.

4.4 Rent Adjustment on the Sixth Lease Year of the Lease Extension Period. On the fifth (5th) Rent Adjustment Date after the Lease Extension Date, in lieu of the annual adjustment set forth in Section 4.3 [Adjustments to Annual Rent], Annual Rent shall be reviewed and adjusted upward to equal the greater of the Annual Rent in effect in the fifth (5th) Lease Year of the Lease Extension Period, as may have been adjusted pursuant to Section 4.3, and the fair market value for the land as determined by reappraisal. City, at its own expense, shall cause an independent appraisal of the Premises by a third party appraiser through the City’s Real Estate Division to determine the extent to which the value of such land has increased over the value of the land as reflected in the current Annual Rent. Upon comparison of the two values, the Annual Rent hereunder shall be adjusted to reflect the appropriate increase. Notwithstanding the above, once the Annual Rent has been adjusted for the sixth (6th) Lease Year of the Lease Extension Period, the Annual Rent shall be adjusted annually thereafter by CPI adjustment, as provided in Section 4.3 above, except that such adjustment mechanism shall be modified as follows:

4.4.1 Annual Rent will be equal to the Annual Rent effective for the first (1st) Lease Year of the Lease Extension Period pursuant to this Section 4.4.

4.4.2 Base Index will be equal to the Consumer Price Index published three (3) months prior to Lease Extension Date.

4.4.3 Notwithstanding anything to the contrary herein, in no event will the Annual Rent of any Lease Year of the Term be lower than the Annual Rent with respect to the prior Lease Year.

5. Term and Conditions for the Hold Over Period. The City and Airline have negotiated certain terms and conditions for the hold over period as follows:

(a) Airline will continue to pay the land rent at the current rate of \$173,423.22 per month, based on a rate of \$129,743.14 per acre per year, until this Modification is fully approved.

(b) The City's Sublease with Airline will be extended on all the same terms and conditions except that the Net Sublease Rent (Sublease Rent net of the "Improvement Deduction" as defined in the Sublease) of \$11,064 per month will be abated.

(c) Airline's obligation to pay the Deferred City Improvements Payment will be deferred until this Modification is fully approved.

(d) Upon full approval by the City, the City will issue a retroactive rental credit to Airline equal to \$62,735.72 for each month beginning July 2011 and ending upon full City approval. Such monthly credit is comprised of: 1) the variance between the current rent for June 2011 and the modified rent that will go into effect retroactive to July 2011 (\$36,906.02); and 2) the land rent paid by Airline for the land under the Subleased space occupied by the City (\$25,829.70).

6. Exhibits. From and after the Effective Date, Exhibits A and B shall be deleted in their entirety and substituted with Airport Drawing No. UAPLOT6, dated May 26, 2011, incorporated herein and attached hereto as *Exhibit B*.

7. Deferred City Improvements Payment. In addition to the Annual Rent for the land, Airline shall pay to City the Deferred City Improvements Payment in a lump sum equal to \$696,000 at the commencement of the Lease Extension Period or in sixty (60) equal payments of Eleven Thousand Six Hundred Dollars (\$11,600) per month over the first five (5) years of the Lease Extension Period. The "**Deferred City Improvements Payment**" shall mean a payment equal to \$696,000 for the deferred cost of certain remediation work in Building 575 required to make the Subleased space habitable for City, as performed by City on behalf of Airline, as more fully set forth in the Sublease, dated October 30, 2008, incorporated herein and attached hereto as *Exhibit A*. The obligation to pay the Deferred City Improvements Payment will commence on the first day of the month following full approval of this Modification by the City.

8. City and Other Governmental Provisions. The following sections are hereby added to the Lease as follows:

8.1 No Advertising or Promotions; Prohibition of Tobacco Advertising. Airline shall have no right to conduct any advertising or promotional activities on the Airport. Airline acknowledges and agrees that no advertising of cigarettes or tobacco products is allowed on any real property owned by or under the control of the City, including the Demised Premises and the Airport. This prohibition includes the placement of the name of a company producing, selling or distributing cigarettes or tobacco products or the name of any cigarette or tobacco product in any promotion of any event or product. This prohibition does not apply to any advertisement sponsored by a state, local or nonprofit entity designed to communicate the health hazards of cigarettes and tobacco products or to encourage people not to smoke or to stop smoking.

8.2 Requiring Health Benefits for Covered Employees.

A. Unless exempt, Airline agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated herein by reference and made a part of this Agreement as though fully set forth. The text of the HCAO is available on the web at <http://www.sfgov.org/olse>. Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Chapter 12Q.

B. For each Covered Employee, Airline shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If Airline chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

C. Notwithstanding the above, if the Airline is a small business as defined in Section 12Q.3(d) of the HCAO, it shall have no obligation to comply with Subsection (A) above.

D. Airline's failure to comply with the HCAO shall constitute a material breach of this Agreement. City shall notify Airline if such a breach has occurred. If, within thirty (30) days after receiving City's written notice of a breach of this Agreement for violating the HCAO, Airline fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty (30) days, Airline fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in Sections 12Q.5.1, 12Q.5(f)(1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

E. Any Subcontract entered into by Airline shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. Airline shall notify City's Purchasing Department when it enters into such a Subcontract and shall certify to the Purchasing Department that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Airline shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against Airline based on the Subcontractor's failure to comply, provided that City has first provided Airline with notice and an opportunity to obtain a cure of the violation.

F. Airline shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to Airline's compliance or anticipated compliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

G. Airline represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

H. Airline shall maintain employee and payroll records in compliance with California Labor Code and Industrial Welfare Commission orders.

I. Airline shall keep itself informed of the current requirements of the HCAO.

J. Airline shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

K. Airline shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten (10) business days to respond.

L. Airline shall allow City to inspect Airline's Demised Premises and to have access to Airline's employees in order to monitor and determine compliance with HCAO.

M. City may conduct random audits of Airline to ascertain its compliance with HCAO. Airline agrees to cooperate with City when it conducts such audits.

N. If Airline is exempt from the HCAO when this Agreement is executed because its amount is less than twenty-five thousand dollars (\$25,000), but Airline later enters into an agreement or agreements that cause Airline's aggregate amount of all agreements with City to reach seventy-five thousand dollars (\$75,000), all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between Airline and the Contracting Department to be equal to or greater than seventy-five thousand dollars (\$75,000) in the Fiscal Year.

8.3 Notification of Limitations on Contributions. Through its execution of this Agreement, Airline acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing any land or building to or from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to the officer at any time from the commencement of negotiations for such contract until the termination of negotiations for such contract or three (3) 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.

8.4 Compliance with Laws. Airline shall keep itself fully informed of the City Charter, codes, ordinances and regulations of the City and of all State, and federal laws in any manner applicable to the performance of this Agreement, and must at all times comply with such applicable local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

8.5 Airport Intellectual Property. Pursuant to Resolution No. 01-0118, adopted by the Airport Commission on April 18, 2001, the Airport Commission affirmed that it will not tolerate the unauthorized use of its intellectual property, including the SFO logo, CADD designs, and copyrighted publications. All proposers, bidders, contractors, tenants, permittees, and others doing business with or at the Airport (including subcontractors and subtenants) may not use the Airport intellectual property, or any intellectual property confusingly similar to the Airport intellectual property, with the Airport Director's prior consent.

8.6 Food Service Waste Reduction. If and to the extent applicable, the Airline agrees to comply fully with and be bound by all of the applicable provisions of the Food Service Waste Reduction Ordinance, as set forth in the San Francisco Environment Code, Chapter 16, including the remedies provided therein, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Agreement as though fully set forth herein. Accordingly, Airline acknowledges that City contractors and lessees may not use Disposable Food Service Ware that contains Polystyrene Foam in City Facilities and while performing under a City contract or lease, and shall instead use suitable Biodegradable/Compostable or Recyclable Disposable Food Service Ware. This provision is a material term of this Agreement. By entering into this agreement, Airline agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, Airline agrees that the sum of one hundred dollars (\$100.00) liquidated damages for the first breach, two hundred dollars (\$200.00) liquidated damages for the second breach in the same year, and five hundred dollars (\$500.00) liquidated damages for subsequent breaches in the same year is a reasonable estimate of the damage that City will incur based on the violation, established in light of the circumstances existing at the time this agreement was made. Such amounts shall not be considered a penalty, but rather agreed monetary damages sustained by City because of Airline's failure to comply with this provision.

8.7 Labor Disputes. Airline agrees to use commercially reasonable efforts to avoid disruption to City, other Air Carriers, Airport tenants, or members of the public arising from labor disputes involving Airline, and in the event of a strike, picketing, demonstration or other labor difficulty involving Airline, to use commercially reasonable efforts, including the utilization of available legal remedies, to minimize or eliminate any disruption to City, other Air Carriers, Airport tenants, or members of the public, arising from such strike, picketing, demonstration or other labor difficulty.

8.8 Preservative-Treated Wood Containing Arsenic. As of July 1, 2003, Airline may not purchase preservative-treated wood products containing arsenic in the performance of this Agreement unless an exemption from the requirements of Environment Code Chapter 13 is obtained from the Department of Environment under Section 1304 of the Environment Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniac copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. Airline may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of Environment. This provision does not preclude Airline from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

9. 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 Modification in duplicate by their duly authorized officers the day and year first hereinabove written.

AIRLINE: United Air Lines, Inc.

By: Kate Gebo

Name: Kate Gebo

Title: Vice President, Corporate Real Estate

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. _____

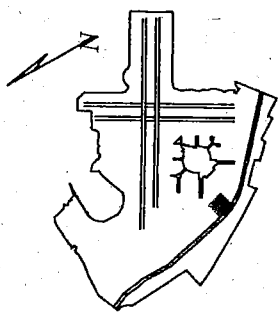
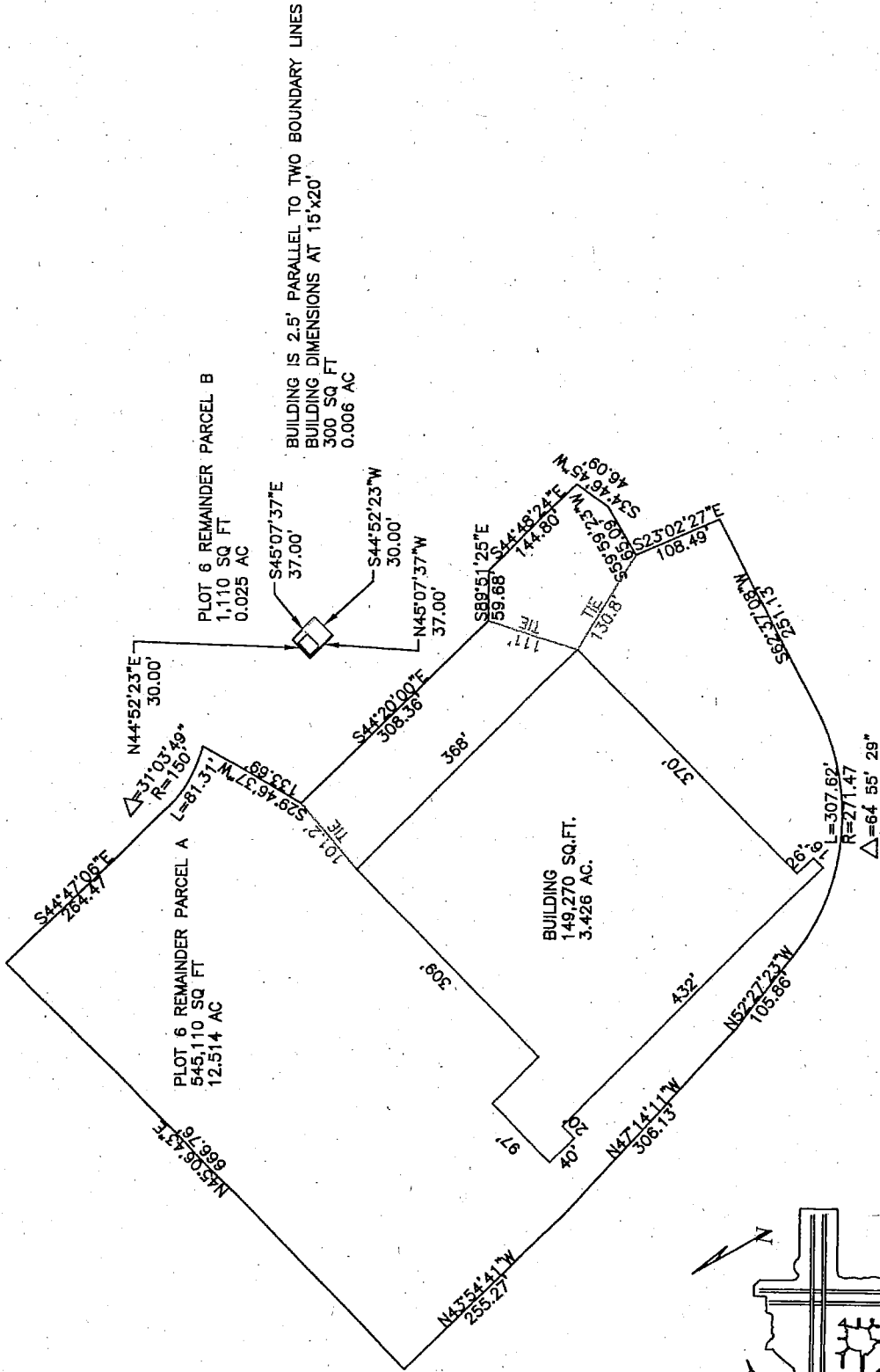
Adopted: _____

Attest: _____

Secretary
Airport Commission

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

By _____
Deputy City Attorney



KEY PLAN

TENANT LOCATION LEASE DRAWING		LOCATION	TENANT	CAT	AREA	CONTRACT	EFF DATE
LOCATION: PLOT 6 - REMAINDER PARCELS A AND B		PARCEL A	UA		12,514 ac		
UNITED AIRLINES		PARCEL B	UA		.025 ac		
CITY & COUNTY OF SAN FRANCISCO							
AIRPORT'S COMMISSION							
SAN FRANCISCO INTERNATIONAL AIRPORT							
DWG: UAPLOT6							
SCALE: 1"=10'-0"							
DATE: 05/26/2011							

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 11-0135

RESOLUTION TO 1) APPROVE MODIFICATION NO. 1 TO LEASE L00-0464 WITH UNITED AIR LINES, INC. FOR APPROXIMATELY 12.54 ACRES OF LAND ON PLOT 6, TOGETHER WITH EXISTING CITY OWNED BUILDINGS; AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 1 TO THE BOARD OF SUPERVISORS FOR APPROVAL.

WHEREAS, Pursuant to Lease L00-0464 (the "Lease"), United Air Lines, Inc. ("United") leases approximately 16.04 acres of land at Plot 6, together with ancillary buildings including Buildings 575 and 585, for various aviation related functions including cargo operations, administrative offices, emergency procedures training, plant maintenance, aircraft maintenance and parking, and employee parking; and,

WHEREAS, the Lease expires on June 30, 2011 and United wishes to continue occupancy of a portion of Plot 6, together with ancillary City owned buildings, including Building 585 for cargo operations, administrative offices, and ancillary aviation related uses; and,

WHEREAS, as the required approvals cannot be obtained from the Board of Supervisors prior to the expiration of the Lease, and pursuant to Section 2.2 of the Lease, the Term will convert to hold over status. The City and United have negotiated certain terms and conditions for the hold over period and Lease modification which: 1) reduces the Demised Premises to 12.54 acres of land, together with existing City owned buildings; 2) extends the Term for ten (10) years; 3) adjusts the annual rent to \$1,638,208; 4) adds the obligation to pay City a Deferred City Improvements Payment equal to \$696,000; and 5) provides for certain terms of retroactivity to July 1, 2011, as set forth in the Director's Memorandum (collectively, the "Modification"); now, therefore be it,

RESOLVED, that the Airport Commission hereby approves and authorizes the Airport Director to execute Modification No. 1 to Lease L00-0464 with United Air Lines which: 1) reduces the Demised Premises to 12.54 acres of land, together with existing City owned buildings; 2) extends the Term for ten (10) years; 3) adjusts the annual rent to \$1,638,208; 4) adds the obligation to pay City a Deferred City Improvements Payment (\$696,000); and 5) provides for certain terms of retroactivity to July 1, 2011, on the terms and conditions set forth in the Director's Memorandum; and, be it further

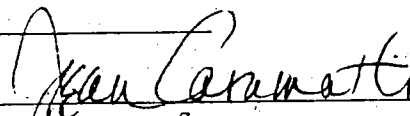
RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward Modification No. 1 to Lease 00-0464 to the Board of Supervisors for approval.

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

at its meeting of _____

JUN 07 2011

518





San Francisco International Airport

MEMORANDUM

June 7, 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: **Approval of Modification No. 1 to Lease L00-0464 with United Air Lines, Inc. for Land at Plot 6**

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO:
 1) APPROVE MODIFICATION NO. 1 TO LEASE L00-0464 WITH UNITED AIR LINES, INC. FOR APPROXIMATELY 12.54 ACRES OF LAND ON PLOT 6, TOGETHER WITH EXISTING CITY OWNED BUILDINGS; AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 1 TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Pursuant to Lease No. L00-0464 (the "Lease") between the City and United Air Lines, Inc. ("United"), United leases approximately 16.04 acres of land on Plot 6, together with ancillary City owned buildings including Buildings 575 and 585 on N. McDonnell Road, for various aviation related functions including cargo operations, administrative offices, emergency procedures training, plant maintenance, aircraft maintenance, and employee parking. The Lease expires on June 30, 2011.

United wishes to continue partial occupancy of Plot 6, together with Building 585, for United's cargo operations, administrative offices, and ancillary activities pursuant to Modification No. 1 of the Lease. The proposed modification will: 1) reduce the demised premises from 16.04 acres of land to approximately 12.54 acres of land, together with existing City owned buildings; 2) extend the Term for an additional ten (10) years; 3) adjust the annual rent to \$1,638,208 from \$2,081,080; 4) provide for a Deferred City Improvements Payment; and 5) provide for certain terms of retroactivity relating to rent and the Deferred City Improvements Payment, as more fully set forth below (collectively, the "Modification"). The reduction in land rental pursuant to the Modification also accommodates the Airport's long-term need for Building 575, the SFO Business Center, and the related parking.

Background

Pursuant to the Lease, United occupies approximately 16.04 acres of land on Plot 6, together with ancillary City owned buildings which reverted to the Airport in 1994, for various aviation related functions including: 1) cargo operations, administrative offices, and aircraft maintenance on Plot 6

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

THIS PRINT COVERS CALENDAR ITEM NO. 3

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

and at Building 585; 2) emergency procedures training and plant maintenance at Building 575 and at an adjacent detached shop; and 3) employee parking. The Lease has a current annual rent of \$2,081,080 and expires on June 30, 2011.

Effective November 2009, pursuant to Commission Resolution No. 08-0189, United subleased to the City approximately 39,425 square feet of office space on the second and third floors of Building 575, together with three employee parking lots, for occupancy through June 30, 2011 (the "Sublease"). United continues to occupy the first and mezzanine levels of Building 575 and certain adjacent support parking. At the time the Sublease was negotiated, United and Airport staff came to a preliminary agreement that upon expiration of the Plot 6 Lease, Building 575 and related parking lots would be removed from the Lease and the sublease would terminate, including the City's obligation to pay sublease rent. The Airport then planned, as owner of Building 575, to occupy the second and third floors to house Airport departments and to lease to United the first and mezzanine levels of Building 575 and the adjacent shop to accommodate United's space needs. The remainder of Plot 6, together with Building 585 (the "Remainder Parcel" or "Demised Premises"), would be leased to United pursuant to the Lease Modification referenced above. Both the proposed lease with United for Building 575 and the Plot 6 Lease Modification were to be based on fair market value. Staff will return to the Commission at a later date to seek approval of a new lease with United for its continued occupancy within Building 575.

Due to the commencement of A-380 aircraft operations at the Airport by Lufthansa German Airlines in May 2011, the Airport may be required to make a slight reconfiguration of the taxiway to the International Terminal, Boarding Area "G" to ensure safe aircraft operations. The parties to the lease recognize this may impact the final boundary of the Plot 6 Lease, but will not be significant, therefore we seek approval of the Modification to the Lease. To address the potential adjustment of the Remainder Parcel, the Modification will grant the Airport a reservation of rights to recapture a portion from United, provide alternative land, as deemed available, and adjust the rent accordingly.

Further, as the required approvals cannot be obtained from the Board of Supervisors prior to the expiration of the Lease, and pursuant to Section 2.2 of the Lease, the Term will convert to hold over status. The City and United have negotiated certain terms and conditions for the hold over period as follows:

- United will continue to pay the ground rent at the current rate of \$173,423.22 per month, based on a rate of \$129,743.14 per acre, per year.
- The City's sublease with United will continue but the Net Sublease Rent (Sublease Rent net of the "Improvement Deduction") of \$11,064 per month will be abated.
- United's obligation to pay the Deferred City Improvements Payment will be deferred until this Modification is fully approved.

Upon full approval by the City, the effective date of the Modification will be retroactive to July 1, 2011 under the following conditions:

- The Airport will issue a retroactive rental credit to United equal to \$62,735.72 for each month beginning July 2011 and ending upon full City approval. Such monthly credit is comprised of: 1) the variance between the current rent due for June 2011 and the modified rent that will go into effect retroactive to July 2011 (\$36,906.02); and 2) the land rent paid by United for the land under the subleased space occupied by the City (\$25,829.70).

- The obligation to the pay Deferred City Improvements Payment will commence effective on the first day of the month following full approval of the Modification.

The proposal before the Commission today is to approve Modification No. 1 to the Lease for the remainder of Plot 6 comprised of 12.54 acres of land, together with Building 585 and an electric substation located within the Building 575 parking lot, to continue United's cargo operation, administrative offices, and ancillary aviation related purposes. The Modification will extend the Term, adjust the annual rent, reduce the Demised Premises, and provide for a Deferred City Improvements Payment, and provide for the rental adjustments reference above, all as more fully described below.

Proposal

Staff has negotiated Modification No. 1 to the Lease with proposed business terms as follows:

1. **Approved Use:** Cargo operations, administrative offices, aircraft maintenance and parking, and ancillary purposes.
2. **Premises:** Approximately 12.54 acres of land comprised of approximately 12.514 acres of land, together with the ancillary City-owned Building 585, and an electric substation situated on .025 acres of land located in the adjacent parking lot serving Building 575, together with Rights-of-Way to such substation.
3. **Reservation of Rights:** The City reserves the right to reduce the Remainder Parcel due the potential reconfiguration of the taxiway serving Boarding Area "G" to accommodate the operations of the A-380 aircraft at the Airport.
4. **Extension Term:** Ten (10) years
5. **Commencement Date:** Retroactive to July 1, 2011
6. **Expiration Date:** June 30, 2021
7. **Annual Rent:** One Million Six Hundred Thirty Eight Thousand Two Hundred Eight Dollars (\$1,638,208).
8. **Rental Rate:** Based on a fair market value of \$130,910 per acre per year for 12.514 acres of land.
9. **Retroactive Rental Credit:** The Airport will issue a retroactive rental credit to United equal to \$62,735.72 for each month beginning July 1, 2011 and ending upon full City approval of the Modification. Such monthly credit is comprised of: 1) the variance between the current rent due for June 2011 and the modified rent that will go into effect retroactive to July 2011 (\$36,906.02); and 2) the land rent paid by United for the land under the subleased space occupied by the City (\$25,829.70).
10. **Rent Adjustment:** Annual CPI adjustments except in year 6 of the Extension Term, when rent will be adjusted to the greater of the rent in year 5 of the Extension Term, as adjusted by an increase in the CPI, or the fair market value of the land, as determined by re-appraisal.

11. **Deferred City Improvements Payment:** In addition to the Annual Rent for the land, United will be obligated to pay to City the Deferred City Improvements Payment in a lump sum equal to \$696,000 or in sixty (60) equal payments of Eleven Thousand Six Hundred Dollars (\$11,600) per month over the first five (5) years of the Extension Term. The "**Deferred City Improvements Payment**" shall mean a payment equal to \$696,000 representing the deferred cost of certain remediation work in Building 575, which work was performed by City on behalf of United, in space to be occupied by City, as more fully set forth in the Sublease between United and City. The obligation to pay the Deferred City Improvements Payment will commence on the first day of the month following full approval of the Lease Modification of the City.

United will be fully compliant with all City Regulations, including the Minimum Compensation Ordinance and the Health Care Accountability Ordinance.

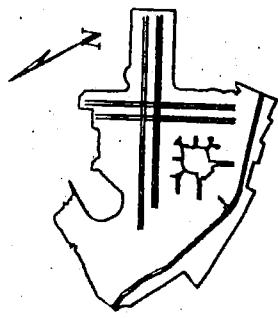
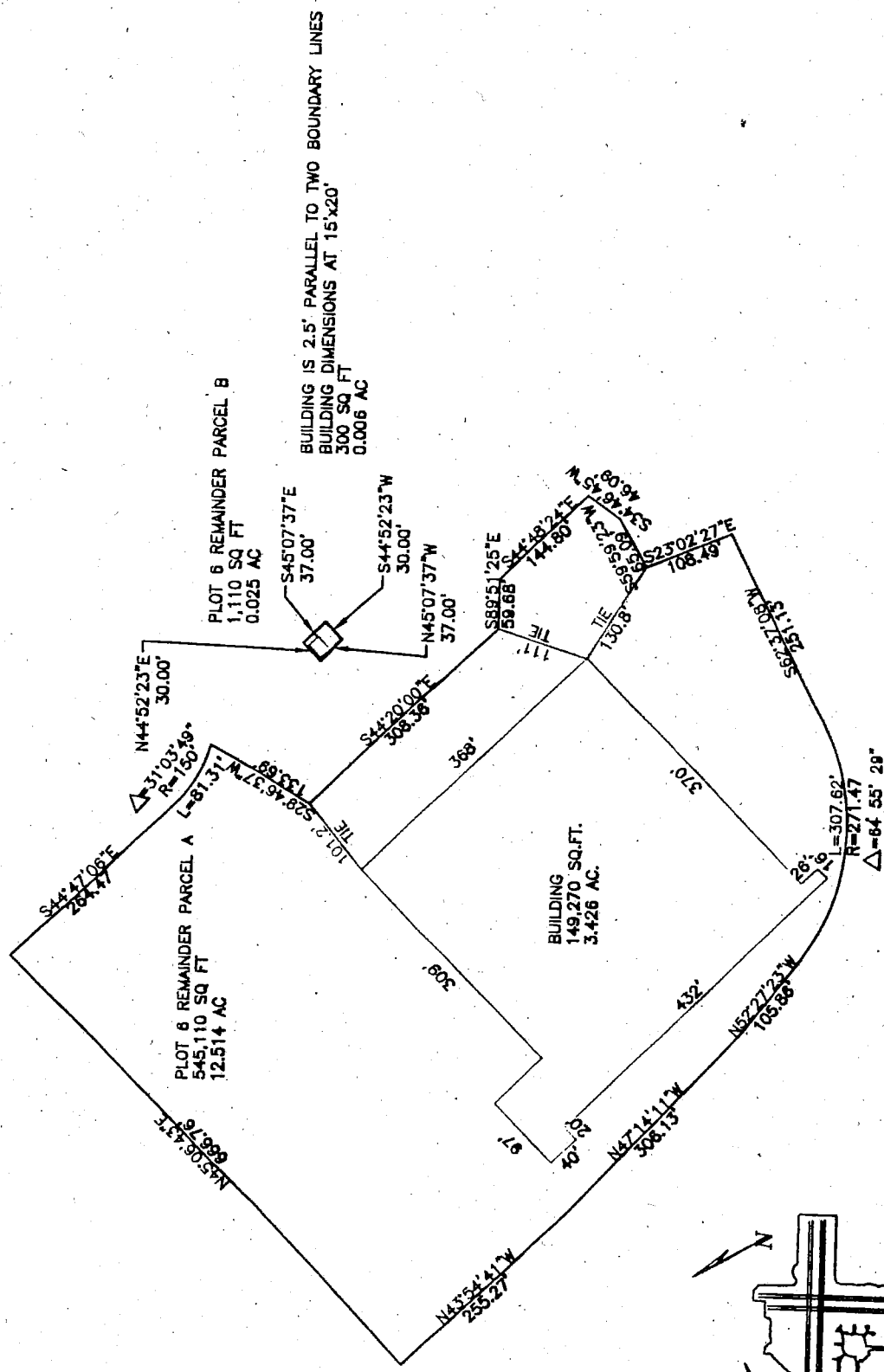
Recommendation

I recommend adoption of the attached resolution that approves Modification No. 1 to Lease No. L00-0464 with United Air Lines to: 1) reduce the Demised Premises to approximately 12.54 acres of land on Plot 6, together with certain City owned buildings; 2) extend the Term for an additional ten (10) years; 3) adjust the annual rent to \$1,638,208; 4) provide for payment of a Deferred City Improvements Payment to City; and 5) provide for certain terms of retroactivity as set forth above. The resolution further directs the Commission Secretary to forward the Lease Modification No. 1 to the Board of Supervisors for approval.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Deputy Airport Director
Business and Finance



KEY PLAN

TENANT LOCATION LEASE DRAWING

LOCATION		TENANT	CAT	AREA	CONTRACT	EFF DATE
PARCEL A		UA		12,514 ac		
PARCEL B		UA		.025 ac		
LOCATION: PLOT 6 - REMAINDER PARCELS A AND B UNITED AIRLINES CITY & COUNTY OF SAN FRANCISCO AIRPORTS COMMISSION SAN FRANCISCO INTERNATIONAL AIRPORT DWG: UAPLOT6 SCALE: 1"=100'-0" DATE: 05/26/2011						



San Francisco International Airport
RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

November 14, 2011

2011 NOV 21 PM 1:31

BY RBC

File 111290

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 L00-0464 between United Air Lines, Inc., 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 to Lease L00-0464 (the "Lease Modification") between the City and County of San Francisco, acting by and through its Airport Commission, and United Air Lines, Inc. ("United"), for approximately 12.54 acres of land at Plot 6 at San Francisco International Airport. The Lease Modification was approved by Airport Commission Resolution No. 11-0135, adopted June 7, 2011.

The Lease Modification provides for rental of approximately 12.54 acres of land at Plot 6, together with existing City owned buildings. The Lease Modification 1) reduces the demised premises from 16.04 acres of land to approximately 12.54 acres of land, together with existing City-owned buildings, 2) extends the Term for an additional ten (10) years, 3) adjusts the land rent to \$1,638,208 from \$2,081,080 per year, 4) provides for a Deferred City Improvements Payment, and 5) provides for certain terms of retroactivity relating to rent and the Deferred City Improvements Payment.

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

- Board of Supervisors Resolution; and
- Approved Airport Commission Resolution No. 11-0135; and
- Commission Memorandum; and
- Modification No. 1 to Lease L00-0464; and
- Two (2) Form SFEC-126: Notification of Contract Approval.

You may contact Cathy Widener, Governmental Affairs Manager, at (650) 821-5023 regarding this matter.

Very truly yours,

Jean Caramatti
Jean Caramatti
Commission Secretary

Enclosures

cc: Cathy Widener

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
-----------------------	----------------------------	------------------------------------	---------------	-----------------------	----------------	------------------------------------

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): Members, SF Board of Supervisors	City elective office(s) held: Members, SF Board of Supervisors
Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: United Air Lines, Inc.	
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.	
1.) Jeffery A. Smisek, Zane C. Rowe, Peter D. McDonald, James Compton 2.) Jeffery A. Smisek, CEO; Zane C. Rowe, CFO; Peter D. McDonald, COO 3.) None 4.) None 5.) United Airlines Political Action Committee (UAPAC). Through the voluntary contribution of eligible employee owners, UAPAC gives support to candidates for federal office who are committed to a strong and competitive airline industry. The United Airlines Government Affairs office in Washington, D.C. can provide further information (202) 296-2337.	
Contractor address: 77 W. Wacker Drive, Chicago, IL 60601	
Date that contract was approved:	Amount of contract: TBD each FY
Describe the nature of the contract that was approved: Plot 6 Lease Modification	
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

Filer Information <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board of Supervisors	Contact telephone number: (415) 554-5184
Address: 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102-4689	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

