

File No. 150237

Committee Item No. 5

Board Item No. \_\_\_\_\_

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date April 15, 2015

Board of Supervisors Meeting

Date \_\_\_\_\_

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/> | Motion                                       |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution                                   |
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| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/> | Youth Commission Report                      |
| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input 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 type="checkbox"/> | Contract/Agreement                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission                 |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Public Correspondence                        |

#### OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Airport Commission Resolution</u> |
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Completed by: Linda Wong

Date April 10, 2015

Completed by: \_\_\_\_\_

Date \_\_\_\_\_

1 [Lease and Use Agreement Modification - Delta Air Lines, Inc. - Estimated Rent of  
2 \$74,192,941.78]

3 **Resolution approving Modification No. 1 to 2011 Lease and Use Agreement No.**  
4 **L10-0083 between Delta Air Lines, Inc., and the City and County of San Francisco,**  
5 **acting by and through its Airport Commission, for changes in the demised premises,**  
6 **with an estimated minimum rent of \$74,192,941.78 for the remainder of the lease term**  
7 **expiring on June 30, 2021.**

8  
9 WHEREAS, Delta Air Lines, Inc. ("Delta") entered into the 2011 Lease and Use  
10 Agreement No. L10-0083 ("L10-0083") pursuant to Airport Commission Resolution No.  
11 10-0083 adopted on March 16, 2010, and Board of Supervisors Resolution No. 208-10  
12 adopted on May 21, 2010, which commenced on July 1, 2011; copies of which are on file with  
13 the Clerk of the Board of Supervisors in File No. 100351; and

14 WHEREAS, By Resolution No. 15-0032 adopted on February 3, 2015, the Airport  
15 Commission approved Modification No. 1 to L10-0083 for the removal from Delta's demised  
16 premises of approximately 4,495 square feet on the Mezzanine Level of Terminal 1 and  
17 approximately 5,269 square feet on Level 3 of Boarding Area A in the International Terminal,  
18 and the addition to Delta's demised premises of approximately 10,012 square feet in Boarding  
19 Area C of Terminal 1, for a net gain of approximately 248 square feet of Exclusive Category II  
20 Space ("Modification No. 1"); and

21 WHEREAS, Based on projected adjustments to the Airport's Rates and Charges, the  
22 estimated minimum rent under L10-0083 with Delta, as modified by Modification No. 1, is  
23 \$74,192,941.78 for the remainder of the lease term; and

1           WHEREAS, A copy of the form of Modification No. 1 is on file with the Clerk of the  
2 Board of Supervisors, in File No. 150237, which is hereby declared to be a part of this  
3 resolution as if set forth fully herein; now, therefore, be it

4           RESOLVED, That this Board of Supervisors hereby approves and authorizes the  
5 execution of Modification No. 1 to the 2011 Lease and Use Agreement No. L10-0083 between  
6 Delta Air Lines, Inc. and the City and County of San Francisco, acting by and through its  
7 Airport Commission, with an estimated minimum rent of \$74,192,941.78 over the remainder of  
8 the term, which expires on June 30, 2021; and, be it

9           FURTHER RESOLVED, That within thirty (30) days of the Modification being fully  
10 executed by all parties, the Airport Commission shall provide a copy of the final Modification  
11 No. 1 to the Clerk of the Board of Supervisors for inclusion into the official file.

<b>Item 5</b> <b>File 15-0237</b>	<b>Department:</b> San Francisco International Airport (SFO)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <p>The proposed resolution would approve Modification No. 1 to the 2011 Lease and Use Agreement between the Airport and Delta Airlines, to add 248 net sf of exclusive use space in Terminal 1.</p> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Delta would like to relinquish 9,764 sf of exclusive use space, including (a) 5,268 sf of passenger lounge space in the International Terminal because they have stopped international service from San Francisco International Airport</li> <li>• Delta is seeking to construct a new larger premium class lounge in Area C of Terminal 1, while relinquishing its other two lounges located in the International Terminal and Terminal 1 once construction in Area C is complete.</li> <li>• The Airport is constructing a shell space for Delta’s new lounge in Area C of Terminal 1 as part of the Airport’s Tower and Integrated Facilities project. Delta will be responsible for all costs associated with the tenant improvement work within the lounge including design and construction.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Delta is projected to pay a minimum estimated \$74,192,942 for 61,375 sf of exclusive use space for the remainder of the lease term from May 1, 2015 through June 30, 2021.</li> </ul> <p><b>Recommendation</b></p> <p>Approve the proposed resolution.</p>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

City Charter Section 9.118(a) states that agreements entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that agreement are subject to Board of Supervisors approval.

**Background**

The Airport entered into a ten-year lease with Delta Airlines (Delta) from July 1, 2011 through June 30, 2021 for exclusive and joint use space in the Airport's Terminal One and the International Terminal. Delta originally leased 631,987 sf of joint use space in the International Terminal but ceased international flights from San Francisco International Airport on March 30, 2014 and stopped using joint use space in the International Terminal on April 1, 2014. Delta originally leased 60,057 sf of exclusive use space located in both Terminal One and the International Terminal. Subsequently, the Airport and Delta agreed to changes in the exclusive use space in the International Terminal and Terminal One, resulting in a net increase of 1,070 sf, totaling 61,127 sf of exclusive use space. To date, Delta Airlines has paid the Airport \$33,862,232 for its exclusive use space.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve Modification No. 1 to the 2011 Lease and Use Agreement between the Airport and Delta Airlines, to add 248 net sf of exclusive use space in Terminal 1. The estimated rent paid by Delta Airlines to the Airport for the remainder of the lease term from May 1, 2015 through June 30, 2021 is \$74,192,942.<sup>1</sup>

If approved, the modifications to the Delta lease would take effect on the first day of the month following full Board approval.

**Requested Lease Modification**

Due to changes in services offered at San Francisco International Airport, Delta is seeking to construct a new larger premium class lounge in Area C of Terminal 1, while relinquishing its other two lounges located in the International Terminal and Terminal 1 once construction in Area C is complete. Delta would like to relinquish 9,764 sf of exclusive use space, including (a) 5,268 sf of passenger lounge space in the International Terminal because they have stopped international service from San Francisco International Airport;<sup>2</sup> and (b) 4,495 sf of passenger lounge space on the Mezzanine Level of Terminal 1, as it will no longer be needed once construction of Delta's new 10,012 sf lounge in Area C of Terminal 1 is complete.

<sup>1</sup> According to Ms. Teresa Rivor, Senior Property Manager for the Airport, the subject lease modifications will only modify exclusive use space for each individual carrier; the rent paid is calculated to reflect only the change in exclusive use space.

<sup>2</sup> As noted in File 15-0211 of the Budget and Legislative Analyst's report to the Budget & Finance Committee, the Airport will reassign 5,268 square feet of International Terminal space, relinquished by Delta, to Air France.

The subject Lease Modification No. 1 would provide Delta with a net gain of 248 sf of exclusive use space for a total of 61,375 sf of exclusive use space, as shown below in Table 2.

**Table 1: Modifications in Delta's Space**

	Exclusive Use Space (sf)
Existing Space	61,127
Reduction in Existing Space in the International Terminal	(9,764)
Addition of New Space in Area C of Terminal 1	10,012
Net Change	248
<b>Total</b>	<b>61,375 sf</b>

### Terminal 1 Boarding Area C Lounge Tenant Improvements

The Airport is constructing a shell space for Delta's new lounge in Area C of Terminal 1 as part of the Airport's Tower and Integrated Facilities project<sup>3</sup>, as it is directly adjacent and attached to certain integrated facilities. Other than the shell space, Delta will be responsible for all costs associated with the tenant improvement work within the lounge including design and construction.

## **FISCAL IMPACT**

### Projected Rate Increases

The Airport sets annual rental rates, including rental rates for airlines' exclusive use space, as part of its residual rate setting methodology.<sup>4</sup> As shown in Table 2 below, the Airport Finance Division provided the following estimates for projected rental rate increases per square foot for exclusive use space through FY 2020-21. These rates are projections, and subject to change.

**Table 2: Projected Rate Increases for Exclusive Use Space per Square Foot per Year**

Space Category <sup>5</sup>	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Category II	\$195.11	\$207.07	\$219.84	\$235.95	\$253.26	\$271.75	\$291.59
Category III	\$130.07	\$138.05	\$146.56	\$157.30	\$168.84	\$181.17	\$194.39
Category IV	\$65.04	\$69.02	\$73.28	\$78.65	\$84.42	\$90.58	\$97.20
Percent Change	-	5.78%	5.81%	6.83%	6.83%	6.80%	6.80%

Source: Airport Finance Division

<sup>3</sup> The Tower and Integrated Facilities Project will construct a new Air Traffic Control Tower, a secure connector between Terminal 1 and Terminal 2, improvements to Terminal 1 Boarding Area C, and the addition of a yoga room.

<sup>4</sup> The residual rate setting methodology sets all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from Airport airlines and concessions are equal to the Airport's total costs.

<sup>5</sup> The Airport rents exclusive use space by five different categories.

Category I = Ticket counters, hold rooms, service counters and kiosks.

Category II = VIP clubs and lounges, baggage claim lobbies, baggage service offices, curbside check-in, and other enclosed space on the departure level and above.

Category III = Enclosed space on the arrival level and below, non-public offices, and enclosed areas on the arrival level & below.

Category IV = Inbound/outbound baggage, and equipment rooms.

Category V = Other unenclosed space, and covered areas at ramp level

Delta is projected to pay a minimum estimated \$74,192,942 for 61,375 sf of exclusive use space for the remainder of the lease term from May 1, 2015 through June 30, 2021, as shown in Table 3 below.

**Table 3: Total Projected Rent to be Paid by Delta to the Airport for 61,375 Square Feet of Exclusive Use Space through June 30, 2021**

Category of Space	Category I	Category II	Category III	Category IV	Total
Square Feet	2,264	28,519	22,006	8,586	61,375
5/1/15-6/30/15*	\$98,159	\$927,390	\$477,053	\$93,072	\$1,595,675
FY 2015-16	\$625,090	\$5,905,429	\$3,037,928	\$592,606	\$10,161,054
FY 2016-17	\$663,624	\$6,269,617	\$3,225,199	\$629,182	\$10,787,622
FY 2017-18	\$712,254	\$6,729,058	\$3,461,544	\$675,289	\$11,578,145
FY 2018-19	\$764,485	\$7,222,722	\$3,715,493	\$724,830	\$12,427,530
FY 2019-20	\$820,292	\$7,749,981	\$3,986,724	\$777,743	\$13,334,740
FY 2020-21	\$880,174	\$8,315,729	\$4,277,755	\$834,518	\$14,308,176
<b>Total</b>	<b>\$4,564,079</b>	<b>\$43,119,926</b>	<b>\$22,181,697</b>	<b>\$4,327,240</b>	<b>\$74,192,942</b>

\* Assume Modification effective date of 5/1/2015

## RECOMMENDATION

Approve the proposed resolution.



RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO

San Francisco International Airport

2015 MAR -2 PM 1:55 February 27, 2015

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: Modification No. 1 to 2011 Lease and Use Agreement No. L10-0083 between Delta 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 2011 Lease and Use Agreement No. L10-0083 between Delta Air Lines, Inc. ("Delta") and the City and County of San Francisco, acting by and through its Airport Commission.

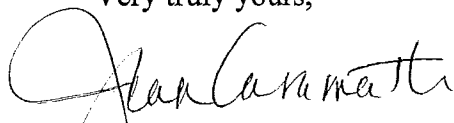
Modification No. 1 to L10-0083 adds approximately 248 square feet of Exclusive Category II Space to Delta's demised premises, effective as of the first day of the month following full City approval.

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

- Board of Supervisors Resolution;
- Ethics Forms SFEC-126 for Delta;
- Approved Airport Commission Resolution No. 15-0032 and accompanying Director's Memoranda; and
- Copy of Modification No. 1 to 2011 Lease and Use Agreement No. L10-0083 with Delta approved as to form by the City Attorney's Office.

You may contact Teresa Rivor of Airport Aviation Management at (650) 821-4525 regarding this matter.

Very truly yours,

  
Jean Caramatti  
Commission Secretary

Enclosures

cc: Teresa Rivor

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
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**MODIFICATION NO. 1 TO  
2011 LEASE AND USE AGREEMENT NO. L10-0083  
SAN FRANCISCO INTERNATIONAL AIRPORT**

**DELTA AIR LINES, INC.**

THIS MODIFICATION NO. 1 TO LEASE AND USE AGREEMENT NO. L10-0083 (this "**Modification**") dated as of \_\_\_\_\_, is entered into by and between the City and County of San Francisco ("**City**"), acting by and through its Airport Commission ("**Commission**"), and Delta Air Lines, Inc., a Delaware corporation ("**Airline**").

**Recitals**

A. The City owns San Francisco International Airport ("**Airport**") located in the County of San Mateo, State of California, which Airport is operated by and through the Commission, the chief executive officer of which is the Airport Director.

B. The Commission has the legal responsibility for the management, supervision, operation, use, maintenance, extension, construction, and control of the Airport's terminals.

C. The Commission has the authority to enter into all contracts, permits, leases, and agreements relating to matters within its jurisdiction and properties.

D. Pursuant to Commission Resolution No. 10-0083 and Board of Supervisors Resolution No. 208-10, adopted on March 16, 2010 and May 21, 2010, respectively, Airline became a signatory to 2011 Lease and Use Agreement No. L10-0083 under which, effective July 1, 2011, Airline commenced a ten-year leasehold with City for operating rights and occupancy of certain premises located in Terminal 1 and the International Terminal at the Airport ("**Agreement**").

E. Pursuant to Commission Resolution No. 11-0275, adopted on December 6, 2011, as part of the Airport's long-term capital plan construction commenced on a new air traffic control tower ("**Tower**") and associated facilities, including pre-security and post-security passenger corridors between Terminal 1 and Terminal 2, new restrooms, a pre-security concession, and a reconfigured checkpoint at Terminal 1, Boarding Area C ("**Integrated Facilities**").

F. Pursuant to Commission Resolution No. 12-0020, adopted January 31, 2012, the Commission determined that it would be beneficial to passengers to replace Airline's existing pre-security lounge with a new, post-security lounge at Terminal 1, Boarding Area C ("**Airline Lounge**").

G. City is willing to construct the shell space for the Airline Lounge ("**Airline Lounge Shell Space**") as part of the Tower and Integrated Facilities project because the Airline Lounge is directly adjacent to and integrated with certain Integrated Facilities.

H. Airline will be responsible for all costs associated with the design, construction, and all related tenant improvement work within the Airline Lounge.

I. In addition to the development of the new Airline Lounge, Airline also desires to modify the Agreement to remove approximately 4,495 square feet of Category II space

corresponding to the lounge space it will be relinquishing in Terminal 1, and approximately 5,269 square feet of space of Category II airline lounge space in the International Terminal following the cessation of Airline's international flights.

J. City and Airline now desire to modify the terms of the Agreement to reflect (1) the removal of approximately 4,495 square feet of Airline's existing domestic lounge in Terminal 1, and the addition of approximately 10,012 square feet of the Airline Lounge, and (2) the removal of approximately 5,269 square feet of Airline's existing lounge located in the International Terminal.

K. Due to the timing of this Modification, Airline and City will execute a separate Airline Operating and Space Permit No. 4420 ("Permit") to allow Airline to begin the tenant improvement of the Airline Lounge until such time that this Modification is approved by the Commission and the Board of Supervisors. Once full City approval has been obtained and this Modification has taken effect, the parties expect to terminate the Permit, after which Airline shall continue its occupancy of the Airline Lounge under this 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 ("Effective Date") of this Modification shall be \_\_\_\_\_, 20\_\_\_\_, conditioned upon (1) approval of this Modification by the Airport Commission and the Board of Supervisors; and (2) execution of this Modification by both parties.

b) Airport shall turn over the Airline Lounge Shell Space to Airline on or around December 1, 2014, from which date Airline shall commence and diligently pursue to completion its construction, related tenant improvement work, and installation of fixtures by May 18, 2015.

c) Due to the timing of the approval of this Modification, Airline shall execute a separate Permit in order to begin its tenant improvement work without delay. It is expected that the Permit will be terminated, as provided therein once this Modification takes effect, following which Airline's obligation to complete its tenant improvement shall continue under this Modification.

d) Rent for the Airline Lounge shall commence on the earlier to occur of (i) May 18, 2015 or (ii) the date the Airline Lounge is open and fully operational.

e) Airline shall vacate its existing lounge in Terminal 1, known as Room No. T1.3.036, no later than thirty (30) days following the start of operation of the Airline Lounge. Further, Rent for Room No. T1.3.036 shall continue until Airline returns this space to Airport, in accordance with the Surrender Standards set forth in Airport's Tenant Improvement Guide ("TIG").

f) Airline shall vacate the existing lounge in the International Terminal, known as Room No. I.3.142, following full approval of this Modification and a date agreed by to City, currently expected on or around \_\_\_\_\_.

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

**2. Airline's International Terminal Joint Use Space remains unchanged, as defined in Article 1 and Exhibit D of the Agreement.**

3. From and after the Effective Date, Airline's Domestic Terminal and International Terminal Exclusive Use Space, as defined in the Agreement, including in Article 1 and Exhibit D, is modified as follows:

a) Addition of approximately 10,012 square feet of Category II Exclusive Use Space, further described as VIP Clubs and Lounges in Terminal 1, comprised of the lobby entrance measuring approximately 576 square feet, known as Space No. C.2.013, and the lounge measuring approximately 9,436, known as Room No. C.3.100;

b) Removal of approximately 4,495 square feet of Category II Exclusive Use Space, further described as VIP Clubs and Lounges, known as Room No. T1.3.036 in Terminal 1; and

c) Removal of approximately 5,269 square feet of Category II Exclusive Use Space, further described as VIP Clubs and Lounges, known as Room No. I.3.142 in the International Terminal.

4. From and after the Effective Date, Exhibit D of the Agreement is deleted in its entirety and replaced with Exhibit D-1, incorporated herein and attached hereto, dated \_\_\_\_\_, 2014, reflecting certain Exclusive Use Space including Airport Drawings, as follows:

a) Removal of Airport Drawing No. T13MDL dated July 1, 2011;

b) Replacement of Airport Drawing No. DLIT3E dated September 25, 2014;

c) Addition of Airport Drawing No. BACL2DL, dated August 21, 2014; and

d) Addition of Airport Drawing No. BACL3DL dated August 21, 2014.

5. From and after the Effective Date, Airline's Exclusive Use Space in Terminal 1 and the International Terminal, as defined in the Lease, including Article 1 and Exhibit D-1, shall consist of the following:

Type	Exclusive Use Space Type	Square Feet
Airline Ticket Counters/Other Category I	I	2,264
VIP Clubs and Lounges	II	10,012
Airline Ticket Office/Other Category II	II	18,507
Other Enclosed Space, Arrivals Level and Below	III	22,006
Inbound/Outbound Baggage Handling and Transfer Areas	IV	8,586

6. **Local Hire.** Airline's construction activities are subject to the San Francisco Local Hiring Policy for Construction ("**Local Hire Policy**") (San Francisco Administrative Code Section 6.22(G)) unless the construction activities are undertaken and contracted for by Airline and are estimated to cost less than \$750,000 per building permit or meet any of the other exemptions in San Francisco Administrative Code Section 6.22(G). Accordingly, Airline, as a condition of the Agreement, agrees that, unless subject to an exemption or conditional waiver, Airline shall comply with the obligations in San Francisco Administrative Code Section 6.22(G) and shall require Airline's subtenants to comply with such obligations to the extent applicable. Before starting any work subject to this

Section, Airline shall contact the City's Office of Economic Workforce and Development ("OEWD") to verify the Local Hire Policy requirements that apply to that work and shall comply with all such requirements. Airline's failure to comply with the obligations in this Section shall constitute a material breach of the Agreement and may subject Airline to the consequences of noncompliance specified in the Local Hire Policy, including but not limited to penalties.

a) For each contractor and subcontractor performing improvements in amounts exceeding the "Threshold Amount" for a "Covered Project" (as such terms are as defined in the Local Hire Policy), Airline shall comply with the applicable mandatory participation levels for Project Work Hours performed by Local Residents, Disadvantaged Workers, and Apprentices set forth in Administrative Code Section 6.22(G)(4).

b) For Covered Projects estimated to cost more than \$1,000,000, prior to commencement of any work subject to the Local Hire Policy, Airline shall prepare and submit to City and OEWD for approval a "local hiring plan" for the project in accordance with Administrative Code Section 6.22(G)(6)(a).

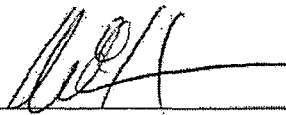
c) Airline shall comply with applicable recordkeeping and reporting requirements and shall cooperate in City inspections and audits for compliance with the Local Hire Policy, including allowing access to employees of its contractors and subcontractors and other witnesses at the Demised Premises.

d) Airline agrees that (i) Airline shall comply with all applicable requirements of the Local Hire Policy; (ii) the provisions of the Local Hire Policy are reasonable and achievable by Airline; and (iii) Airline has had a full and fair opportunity to review and understand the terms of the Local Hire Policy.

**7. 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 Agreement in duplicate by their duly authorized officers the day and year first hereinabove written.

AIRLINE: DELTA AIR LINES, INC.,  
a Delaware corporation

By:   
Name: David Hamm  
Title: Director, Corporate Real Estate

CITY: CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation,  
acting by and through its Airport Commission

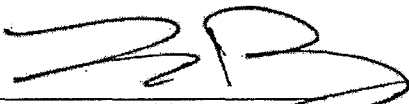
\_\_\_\_\_  
John L. Martin <sup>cf</sup>  
Airport Director

AUTHORIZED BY AIRPORT  
COMMISSION

Resolution No. 15-0032  
Adopted: February 3, 2015

Attest: \_\_\_\_\_  
Secretary  
Airport Commission

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

By:   
~~XXXXXXXXXXXX~~ Luke W. Bowman  
Deputy City Attorney

**EXHIBIT D-1**  
**DESCRIPTION OF DEMISED PREMISES AND SPACE DRAWINGS**  
 Revised \_\_\_\_\_, 20\_\_

The Demised Premises consist of the following, pursuant to Airport Commission Resolution No. \_\_\_-\_\_\_, adopted \_\_\_\_\_, 20\_\_.

**EXCLUSIVE USE SPACE**, as more particularly described on Airport Drawings Numbers specified on the List of Drawings attached hereto.

Type	Terminal	Category	Square Feet
Ticket Counters		I	1,563
Other Category I		I	701
Airline Ticket Office (ATO)		II	5,826
VIP Clubs and Lounges		II	10,012
Other Enclosed Space Departure Level and above		II	135
Baggage Claim Lobbies		II	11,543
Baggage Service Offices		II	785
Curbside Check-in		II	218
Other Enclosed Space, Arrivals Level and below		III	22,006
Inbound/Outbound Baggage Handling Areas and Baggage Transfer Areas		IV	8,586
Equipment Rooms		IV	0
Unenclosed or Covered Area - Ramp Level		V	0

**JOINT USE SPACE**, as more particularly described on Airport Drawings Numbers specified on the List of Drawings attached hereto.

Type	Terminal	Category* (J/U type)	Square Feet
Ticket Counter		I (e)	18,769
Holdroom		I (e)	119,598
Other Common Use, Level 1 & 3+		II (d)	544
Baggage Claim/FIS		II (d)	205,711
Domestic Baggage Claim		II (t)	8,052
Other Enclosed Common Use, Level 2 and below		III (t)	12,025
Outbound Baggage Makeup		IV (d)	138,826
Inbound Baggage Makeup		IV (e)	126,574
Other Unenclosed Space		V (t)	1,888

\* The Category references are utilized in the Joint Use Formulas, as follows: (e): enplaned / (d): deplaned / (t): total.

**PREFERENTIAL USE GATES**, as more particularly described on Airport Drawing Numbers specified on the List of Drawings attached hereto.

The Gates are allocated to Airline on a Preferential Use basis as of the Effective Date, subject to annual reallocation as provided in Article 3.

**LIST OF DRAWINGS**

<b>EXCLUSIVE USE SPACE</b>	<b>Drawing No.</b>	<b>Dated</b>
CAT I, Room T1.2.087	1,563 square feet T12DL	July 1, 2011
CAT I, Room T1.2.087A	175 square feet T12DI	July 1, 2011
CAT I, Room C.2.031	526 square feet T12BCDL	April 8, 2014
CAT II, Room T1.1.077	785 square feet T11DL	October 22, 2013
CAT II, Room T1.1.CO15	3,547 square feet T11DL	October 22, 2013
CAT II, Room T1.1.CO16	3,582 square feet T11DL	October 22, 2013
CAT II, Room T1.1.CO17	4,414 square feet T11DL	October 22, 2013
CAT II, Room T1.2.090	218 square feet T12DL	July 1, 2011
CAT II, Room T1.2.082K-P	1,208 square feet T12DL	July 1, 2011
CAT II, Room T1.2.085A-J	2,207 square feet T12DL	July 1, 2011
CAT II, Room T1.2.086D-P	2,082 square feet T12DL	July 1, 2011
CAT II, Room C.2.013	576 square feet BACL2DL	August 21, 2014
CAT II, Room C.3.100	9,436 square feet BACL3DL	August 21, 2014
CAT II, Room I.3.014D	329 square feet DLIT3E	September 25, 2014
CAT II, Room C.2.014	135 square feet T12BCDL	July 1, 2011
CAT III, Room C1.1.007-19/23	6,658 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.033	106 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.034	57 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.039-49	10,386 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.050	127 square feet T11BDCL	July 1, 2011
CAT III, Room C.1.056Z	1,039 square feet T11BCDL	July 1, 2011
CAT III, Room A.1.191	1,005 square feet DLBAA1E	July 1, 2011
CAT III, Room C.1.068B-D	868 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.022	533 square feet T11BCDL	July 1, 2011
CAT III, Room C.1.059	782 square feet T11BCDLP	September 19, 2013
CAT III, Room C.1.061B	445 square feet T11BCDLP	September 19, 2013
CAT IV, Room T1.1.073	8,304 square feet T11DL	October 22, 2013
CAT IV, Room T1.2.087B	177 square feet T12DL	July 1, 2011
CAT IV, Room T1.2.083	105 square feet T12DL	July 1, 2011

**JOINT USE SPACE****Drawing No.****Dated**

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International Terminal, 1 <sup>st</sup> Floor	IT1JT	July 1, 2011
International Terminal, 2 <sup>nd</sup> Floor	IT2JT	July 1, 2011
International Terminal, 3 <sup>rd</sup> Floor	IT3JT	July 1, 2011
Boarding Area A, 1 <sup>st</sup> Floor	BAA1JT	July 1, 2011
Boarding Area A, 2 <sup>nd</sup> Floor	BAA2JT	July 1, 2011
Boarding Area A, 2 <sup>nd</sup> Floor Mezzanine	BAA2MJT	July 1, 2011
Boarding Area A, 3 <sup>rd</sup> Floor	BAA3JT	July 1, 2011
Boarding Area G, 1 <sup>st</sup> Floor	BAG1JT	July 1, 2011
Boarding Area G, 2 <sup>nd</sup> Floor	BAG2JT	July 1, 2011
Boarding Area G, 3 <sup>rd</sup> Floor	BAG3JT	July 1, 2011

**PREFERENTIAL USE SPACE**

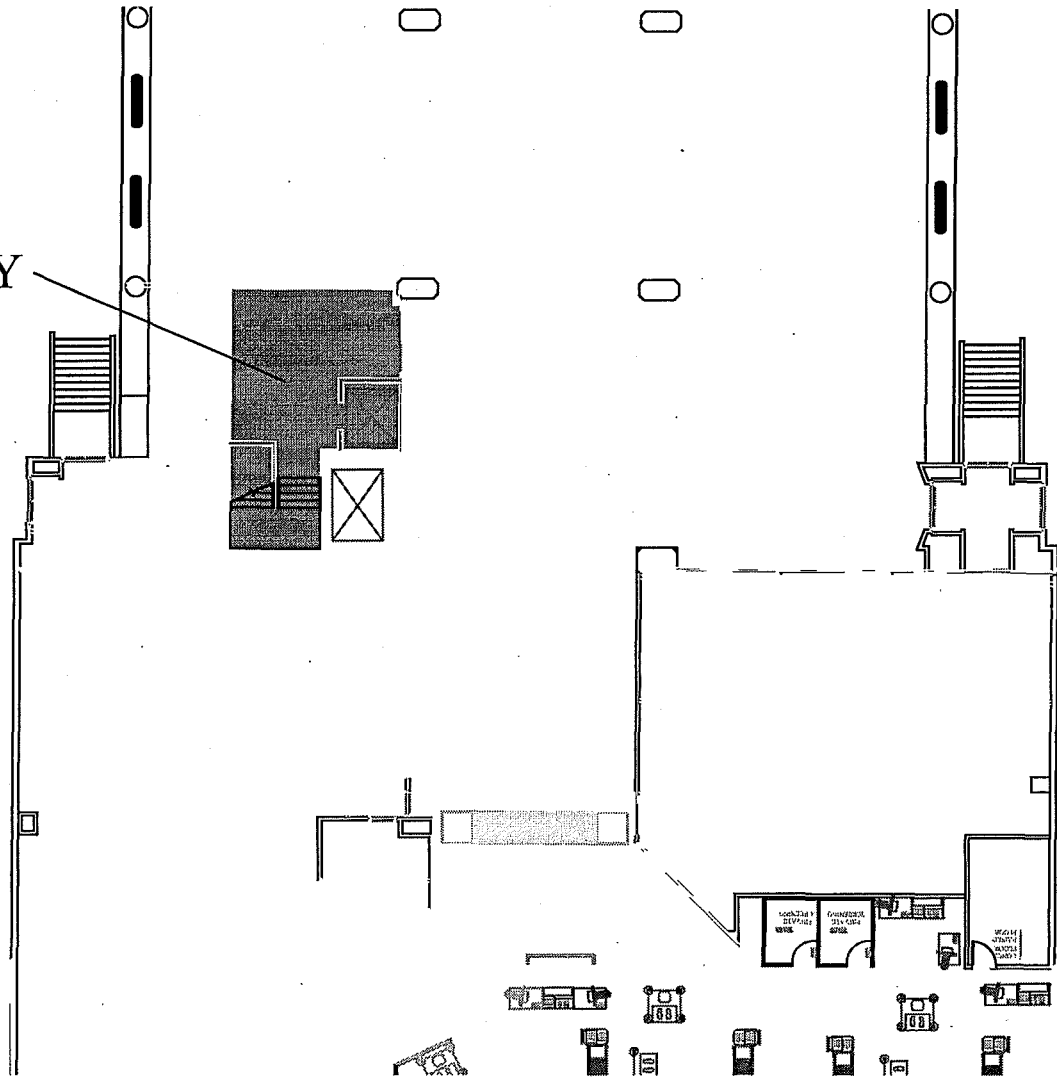
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For future determination.



I:\AutoCad\LEASE\South\aviation\DLV\2014\BACL2DL.dwg, 8/21/2014 5:35:46 PM

DELTA SKY CLUB LOBBY  
 C.2.013  
 576'



## LEASE DRAWING

LOCATION: BOARDING AREA C - LEVEL 2

TENANT: DELTA AIRLINES SKY CLUB LOUNGE LOBBY

AIRPORTS COMMISSION

DWG: BACL2DL

CITY & COUNTY OF SAN FRANCISCO

DATE: 8/21/2014

SAN FRANCISCO INTERNATIONAL AIRPORT

ROOM NUMBER

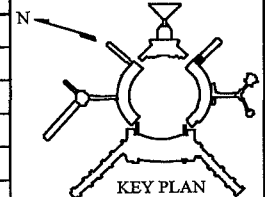
C.2.013

AREA

576'

CAT

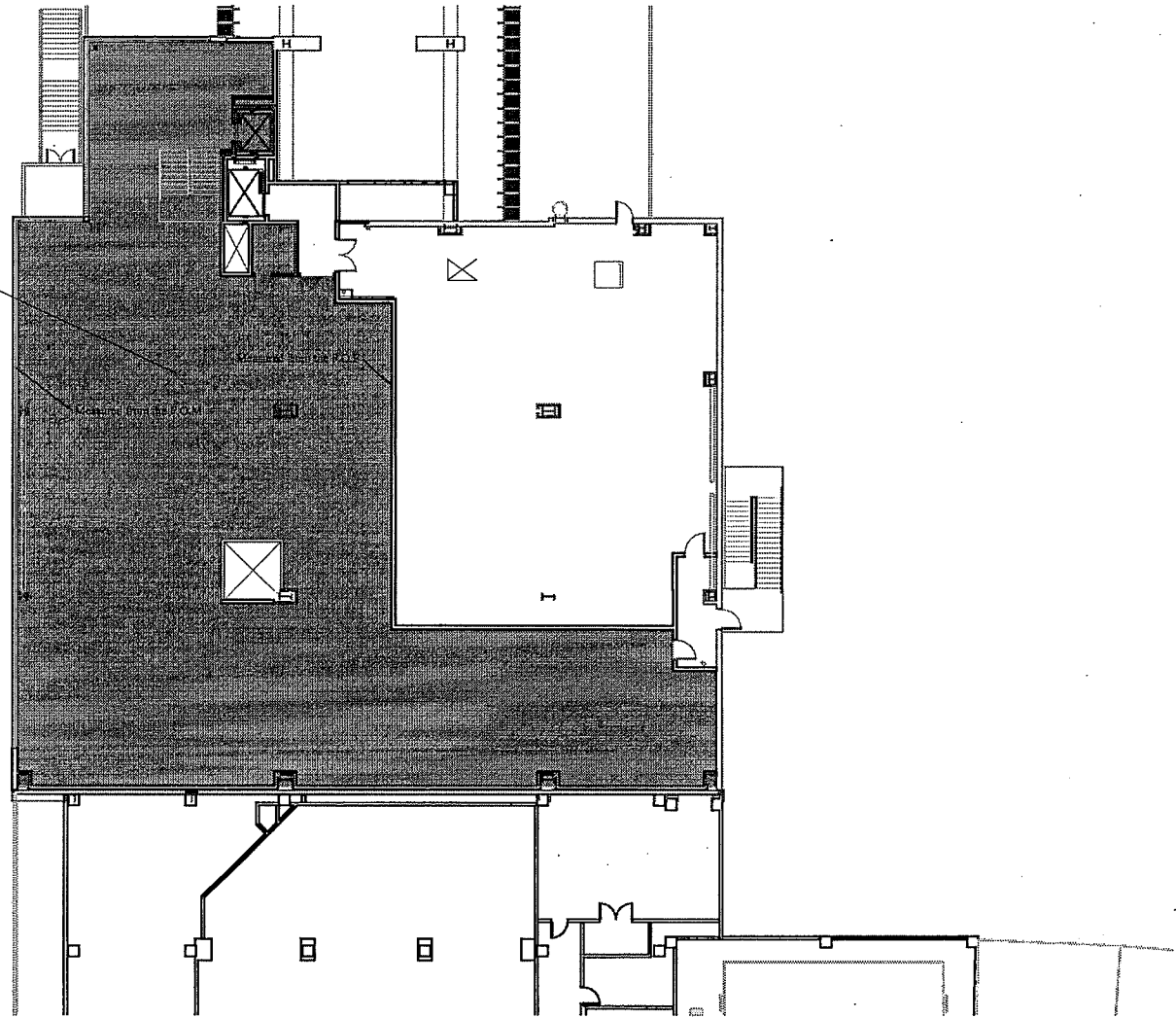
2



KEY PLAN

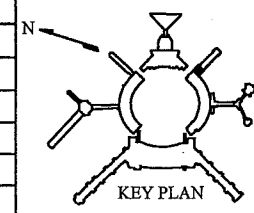
DELTA SKY CLUB  
C.3.100  
9436'

Lease Calculation reflects area  
of base building shaft removed  
from total.



## LEASE DRAWING

		ROOM NUMBER	AREA	CAT
LOCATION: TERMINAL 1 - MEZZANINE		C.3.100	9436'	2
TENANT: DELTA AIRLINES SKY CLUB LOUNGE				
AIRPORTS COMMISSION	DWG: BACL3DL			
CITY & COUNTY OF SAN FRANCISCO	DATE: 8/21/2014			
SAN FRANCISCO INTERNATIONAL AIRPORT				



AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
RESOLUTION NO. 15-1032

APPROVAL OF MODIFICATION NO. 1 TO THE 2011 LEASE AND USE AGREEMENT  
NO. L10-0083 WITH DELTA AIR LINES, INC. AND DIRECTING THE COMMISSION  
SECRETARY TO FORWARD THE MODIFICATION TO THE BOARD OF SUPERVISORS FOR  
APPROVAL

- WHEREAS, Delta Air Lines, Inc. ("Delta") is a signatory to the 2011 Lease and Use Agreement No. L10-0083 (the "Lease") effective as of July 1, 2011; and
- WHEREAS, Delta desires to develop a new and expanded premium class lounge in approximately 10,012 square feet of Exclusive Use space in Boarding Area C in Terminal 1; and
- WHEREAS, upon completion of the new lounge, Delta desires to relinquish approximately 4,495 square feet of Category II Exclusive Use space in Terminal 1 where its existing lounge is located; and
- WHEREAS, Delta also desires to relinquish approximately 5,269 square feet of Exclusive Use space in the International Terminal as a result of the cessation of its international flights; and
- WHEREAS, Delta's request to relinquish space in the International Terminal presents an opportunity for Air France to expand into Delta's relinquished space and for Cathay Pacific to expand into the lounge space to be vacated by Air France; and
- WHEREAS, following the addition and deletion of the Exclusive Use Category II Space in the Delta Lease, the net change will result in the addition of approximately 248 square feet of Exclusive Use Category II Space, and will generate an estimated \$48,387.28 per year in revenue to the Airport; now, therefore, be it
- RESOLVED, that this Commission hereby approves and authorizes the Director to execute Modification No. 1 to 2011 Lease and Use Agreement No. L10-0083 with Delta (the "Modification"), which adds approximately 10,012 square feet of Category II Exclusive Use space and removes approximately 9,764 square feet of Category II Exclusive Use space, resulting in the net increase of approximately 248 square feet of Category II Exclusive Use space; and be it further
- RESOLVED, that the Commission Secretary is hereby directed to request approval of the Modification by resolution of the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

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

*at its meeting of* \_\_\_\_\_

FEB 03 2015

  
Secretary



San Francisco International Airport

MEMORANDUM

February 3, 2015

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: Modification No. 1 to 2011 Lease and Use Agreement No. L10-0083 with Delta Air Lines, Inc. for Changes in Demised Premises

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 1 TO 2011 LEASE AND USE AGREEMENT NO. L10-0083 WITH DELTA AIR LINES, INC., FOR A NET INCREASE IN THE DEMISED PREMISES OF APPROXIMATELY 248 SQUARE FEET, AND DIRECT THE COMMISSION SECRETARY TO REQUEST THE BOARD OF SUPERVISORS APPROVAL OF THE LEASE MODIFICATION.

Executive Summary

Pursuant to the 2011 Lease and Use Agreement No. L10-0083 (the "Lease"), Delta Air Lines, Inc. ("Delta") occupies approximately 53,454 square feet of Exclusive Use Space in Terminal 1 and approximately 6,603 square feet of Exclusive Use Space and Joint Use Space in the International Terminal. Delta wishes to expand its premium class lounge by relocating to a 10,012 square feet of Exclusive Use space in Terminal 1, Boarding Area C. Once the new lounge is completed, Delta desires to relinquish its current Terminal 1 lounge consisting of approximately 4,495 square feet of Category II Exclusive Use Space. In addition, as a result of the cessation of its international flight operations, Delta desires to relinquish its lounge in the International Terminal consisting of approximately 5,269 square feet of Category II Exclusive Use Space. Delta's relinquishment of its lounge in the International Terminal will provide Air France the opportunity to expand its lounge by taking over the lounge to be vacated by Delta, which in turn will provide Cathay Pacific Airways Limited ("Cathay Pacific") the opportunity to expand its lounge by taking over the lounge to be vacated by Air France. Following the addition and removal of space by Delta, the change will result in a net increase of approximately 248 square feet of Category II Exclusive Use Space to the Delta Lease and an increase in rental revenues by an estimated \$48,387.28 annually.

Background

Pursuant to Airport Commission Resolution No. 10-0083 adopted March 16, 2010, and Board of Supervisors Resolution No. 208-10 adopted May 11, 2010, Delta became a signatory to the Lease for a ten-year term. Delta now desires to offer its premium passengers a new, larger lounge. The selected site will be located post-security in Terminal 1, Boarding Area C and is comprised of approximately 10,012 square

THIS PRINT COVERS CALENDAR ITEM NO. 13

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

feet of Category II space. Once the new lounge is completed, Delta will relocate from its existing lounge and relinquish to the Airport approximately 4,495 square feet of Category II Exclusive Use space in Terminal 1.

As a result of Delta's cessation of its international flight operations, Delta requests an additional modification to the Lease by relinquishing approximately 5,269 square feet of space in the International Terminal that it no longer needs. Separately, Air France, and Cathay Pacific Airways have expressed a desire to expand their lounges in the International Terminal. Staff recommends agreeing to Delta's request to remove 5,269 square feet of space in the International Terminal in order to allow Air France to expand into Delta's relinquished space, which in turn will allow Cathay Pacific to expand into the lounge space to be vacated by Air France. In the interim, with the Director's approval, Delta has subleased its lounge space in the International Terminal to Air France so that Air France may have immediate access to the space leased to Delta and to allow Delta to minimize its financial obligations. Modification No. 1 to the Delta Lease will align the use of terminal space with the needs of Delta, Air France and Cathay Pacific. Modifications to the leases with Air France and Cathay Pacific will be presented to the Commission separately.

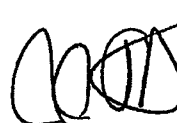
#### Proposal

Staff has determined that a new Delta post-security lounge located on Boarding Area C, Terminal 1 and the removal of Delta's existing lounge space in Terminal 1 and the International Terminal is an excellent use of space, will provide better passenger service, and will generate additional revenue of an estimated \$48,387.28 per year.

Upon Airport Commission approval, Staff will forward this Modification No. 1 to the Board of Supervisors for approval.

#### Recommendation

I recommend adoption of the accompanying Resolution approving Modification No. 1 to 2011 Lease and Use Agreement No. L10-0083 with Delta Air Lines, Inc., which adds approximately 10,012 square feet of Category II Exclusive Use space for a new lounge for Delta's premium passengers and relinquishes approximately 9,764 square feet of Category II Exclusive Use space comprised of approximately 4,495 square feet of Domestic Terminal lounge space in Terminal 1 and approximately 5,269 square feet of International Terminal lounge space. Following these changes, the net change will result in an increase of approximately 248 square feet of space in demised premises and will generate additional revenue of an estimated \$48,387.28 per year. The proposed Resolution also directs the Commission Secretary to request Board of Supervisors approval of the Lease Modification in accordance with City Charter Section 9.118.



John L. Martin  
Airport Director

Prepared by: Leo Fermin  
Chief Business & Finance Officer

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

<b>City Elective Officer Information</b> <i>(Please print clearly.)</i>	
Name of City elective officer(s): <b>Members, SF Board of Supervisors</b>	City elective office(s) held: <b>Members, SF Board of Supervisors</b>
<b>Contractor Information</b> <i>(Please print clearly.)</i>	
Name of contractor: <b>DELTA AIR LINES, INC.</b>	
<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>	
PLEASE SEE ATTACHED	
Contractor address: 1030 Delta Boulevard, Department 878, Atlanta, GA 30320	
Date that contract was approved:	Amount of contract:
Describe the nature of the contract that was approved: Modification No. 1 to 2011 Lease and Use Agreement	
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

<b>Filer Information</b> <i>(Please print clearly.)</i>	
Name of filer: <b>Angela Calvillo, Clerk of the Board of Supervisors</b>	Contact telephone number: <b>(415) 554-5184</b>
Address: <b>City Hall, Room 244,</b>	E-mail: <b>Board.of.Supervisors@sfgov.org</b>

\_\_\_\_\_  
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

**DELTA AIR LINES, INC.**  
**ANNEX TO FORM SFEC-126**

**1. Board Members:**

Richard H. Anderson  
Edward H. Bastian  
Francis S. Blake  
Roy J. Bostock  
John S. Brinzo  
Daniel A. Carp  
David G. DeWalt  
Thomas E. Donilon  
William H. Easter III  
Mickey P. Foret  
David R. Goode  
George N. Mattson  
Paula Rosput Reynolds  
Sergio Rial  
Kenneth C. Rogers  
Kenneth B. Woodrow

**2. Chief Executive Officer:** Richard H. Anderson

**Chief Financial Officer:** Paul A. Jacobson

**Chief Operating Officer:** W. Gil West

**3. Ownership of 20%:** None

**4. Any Subcontractor Listed in the Bid or Contract:** N/A

**5. Any Political Committee Sponsored or Controlled by the Contractor:**

Delta Air Lines Political Action Committee (Federal PAC)

1212 New York Ave. NW

Suite 200

Washington, DC 20005

