

File No. 110109

Committee Item No. 3  
Board Item No. 33

**COMMITTEE/BOARD OF SUPERVISORS**  
AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: February 23, 2011

Board of Supervisors Meeting

Date 3/1/11

**Cmte Board**

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| <input type="checkbox"/>              | <input type="checkbox"/>            | Legislative Digest                           |
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| <input checked="" type="checkbox"/>   | <input checked="" type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>              | <input type="checkbox"/>            | Introduction Form (for hearings)             |
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| <input type="checkbox"/>              | <input type="checkbox"/>            | Grant Information Form                       |
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**OTHER**

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Completed by: Victor Young

Date: February 18, 2011

Completed by: Victor Young

Date: 2-24-11

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

1 [Airport Lease Agreement - China Airlines, Ltd. - Building 648]

2  
3 **Resolution approving and authorizing the execution of Lease No. 10-0347 with China**  
4 **Airlines, Ltd. for cargo warehouse and support office space to be occupied by China**  
5 **Airlines, Ltd. in Building 648 at San Francisco International Airport.**

6  
7  
8 WHEREAS, China Airlines, Ltd ("China Airlines") has occupied cargo warehouse and  
9 support office space in Building 648 in the West Field Cargo Area for the past ten years  
10 pursuant Commission Resolution 00-0212, adopted on July 14, 2000, and Board of  
11 Supervisors' Resolution No. 95-99, adopted February 8, 1999; and

12 WHEREAS, The aforementioned lease will terminate on April 8, 2011; and

13 WHEREAS, China Airlines wishes to enter into a new lease for approximately thirty-  
14 three thousand three hundred forty six (33,346) square feet of cargo warehouse space and  
15 four thousand eight hundred thirty six (4,836) square feet of support office space to  
16 accommodate its integrated cargo operation at Building 648; and

17 WHEREAS, Airport staff has negotiated a renewal lease with China Airlines with a  
18 Term of five (5) years for cargo warehouse and support office space in Building 648 to  
19 accommodate China Airlines' cargo operation (the "Lease"); and

20 WHEREAS, On December 7, 2010, pursuant to Resolution No. 10-0347, the Airport  
21 Commission approved the Lease with China Airlines. A copy of the form of the Lease is on  
22 file with the Clerk of the Board of Supervisors in File No. 110109, which is hereby declared to  
23 be a part of this resolution as if set forth fully herein; now, therefore, be it

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RESOLVED, That this Board of Supervisors hereby approves the five (5) Year Lease for cargo warehouse and support office space in Building 648, between China Airlines and the City and County of San Francisco, acting by and through its Airport Commission.

**Item 3**  
**File 11-0109**

**Department:**  
San Francisco International Airport

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would authorize a five-year lease renewal between the San Francisco International Airport (Airport) and China Airlines Limited (China Airlines), for a total of 38,082 square feet of cargo space, including reduced office space and non-exclusive ramp and parking space at the Airport.

### Key Points

- China Airlines is in the final year of an existing ten-year and four-month lease with the Airport for space to conduct its cargo operations, which includes (a) 33,246 square feet of cargo warehouse space, providing 11 truck docking spaces, and (b) 5,286 square feet of office space. The lease also provides for non-exclusive use of ramps and employee and aircraft parking. Under the existing lease, China Airlines pays the Airport annual rent of \$915,906 for a total of 38,532 square feet. Under the proposed five-year lease with China Airlines, the office space square footage would be reduced by 450 square feet, based on China Airlines changed office space needs, such that China Airlines would lease (a) 33,246 square feet of cargo warehouse space and (b) 4,836 (5,286 less 450) square feet of office space for a total of 38,082 square feet. The proposed lease will continue to provide for non-exclusive use of ramps and employee and aircraft parking

### Fiscal Impacts

- The proposed lease renewal, which would begin on April 9, 2011, would result in a rent reduction of \$100,951 or 11 percent to China Airlines, from \$915,906 currently being paid to the Airport to \$814,955. This reduction in rent is partially due to (a) the reduction of 450 square feet of office space in the proposed lease, and (b) the \$2.37 reduced rate per square foot from the current rate of \$23.77 per square foot per year to the proposed rate of \$21.40 per square foot per year as negotiated by the Airport for the proposed lease.
- However, because any budgetary shortfall resulting from the proposed lease modification would be eliminated through increased rental rates and related fees charged to all airlines located at the Airport, under the Airport's residual rate setting methodology, otherwise known as the breakeven policy, the proposed lease modification does not have a direct fiscal impact on the Airport.

### 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 lands 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 (a) requires the Board of Supervisors approve any lease which would result in revenues to the City in excess of \$1,000,000.

**Background**

On July 31, 2000, the Board of Supervisors approved Resolution No. 689-00, authorizing the current lease between China Airlines Limited (China Airlines) and the San Francisco International Airport (Airport). The current lease extends for a term of ten years and four months, from December 8, 2000 through April 8, 2011, and initially included a total of 38,821 square feet, including (a) 33,535 feet of cargo warehouse space, which provides for 11 truck docking spaces and (b) 5,286 square feet of office space in Building 648. The lease also provides for non-exclusive use of ramp areas and employee and aircraft parking. The Airport previously approved reducing the amount of cargo space leased to China Airlines on August 29, 2001 by 289 square feet from 33,535 to 33,246 square feet for a total leased space of 38,532 square feet (38,821 less 289) because Airport equipment that was located in the China Airlines cargo leased space was occupying a portion of the originally leased space. The rate per square foot for both the cargo and the office space for the first year of the lease was \$19.75 per square foot, with an annual rent of \$761,007 per year. The existing lease also includes a provision which allows annual rent increases payable to the Airport based on changes in the Consumer Price Index.<sup>1</sup> (CPI)

Table 1 below summarizes the China Airlines lease rates per square foot and the annual rents received by the Airport from 2001 through 2010. The annual increases in the rates per square foot are based on changes in the CPI. As shown in Table 1 below, over the past ten years the Airport has received a total of \$8,362,838 of rental revenues from the existing cargo operations and related office space lease with China Airlines.

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<sup>1</sup> The Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

	<b>Annual Rent per Square Foot</b>	<b>Annual Lease Amount</b>
2001	\$19.75	\$761,007
2002	20.11	774,777
2003	20.78	800,698
2004	20.82	802,318
2005	21.15	814,873
2006	21.77	838,768
2007	22.46	865,450
2008	23.08	889,319
2009	23.35	899,722
2010	23.77	915,906
<b>Total</b>		<b>\$8,362,838</b>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize China Airlines to renew its existing lease with the Airport for a term of five years, from April 9, 2011 through April 8, 2016. Specifically, the proposed lease would authorize China Airlines to rent a total of 38,082 square feet of space, including (a) 33,246 square feet of cargo warehouse space that provides 11 truck docking spaces, and (b) 4,836 square feet of office space in Building 648. The proposed lease would also provide China Airlines with non-exclusive use of various ramp areas and employee and aircraft parking.

As noted above, China Airlines currently rents a total of 38,532 square feet of space at the Airport, including 5,286 feet of office space. Under the proposed lease, the square footage of office space would be reduced from 5,286 square feet to 4,836 square feet, a reduction of 450 square feet, based on China Airlines' reduced space needs. Therefore, under the proposed lease renewal, the total square footage of leased space would decrease from 38,532 square feet to 38,082 square feet, a reduction of 450 square feet.

The proposed lease is based on a rate of \$21.40 per square foot per year for a total annual rent of \$814,955. Like the existing lease, the proposed lease also provides annual rent increases based on changes in the CPI.

## FISCAL IMPACT

As shown in Table 2 below, the proposed lease renewal would result in an annual rent reduction of \$100,951 or 11 percent for China Airlines, from \$915,906 (see Table 1 above) currently being paid to the Airport to \$814,955. This reduction in rent is due to (a) the reduction of 450 square feet of office space in the proposed lease, and (b) the \$2.37 reduced rental rate per square foot from the current rate of \$23.77 per square foot (see Table 1 above) to the proposed rate of \$21.40 per square foot. The new rental rate of \$21.40 per square foot per year was negotiated by the Airport for the proposed lease, as shown in Table 2 below.

Type of Space	Square Feet Under Current Lease Terms	Square Feet Under Proposed Modified Lease Terms	Difference
Warehouse Space	33,246	33,246	0
Office Space	5,286	4,836	450
<b>Total Space (Square Feet)</b>	<b>38,532</b>	<b>38,082</b>	<b>450</b>
x Annual Rental Rate	\$23.77	\$21.40	\$2.37
<b>Annual Rent</b>	<b>\$915,906</b>	<b>\$814,955</b>	<b>\$100,951</b>

According to Mr. Dan Ravina, Senior Property Manager for the Aviation Division of the Airport, "both the rental rate and the term of the lease were heavily negotiated and reflect the extremely challenging air cargo business environment, consisting of substantial market shrinkage over the recent years." According to Mr. Ravina, the Airport currently has 96,779 square feet of vacant cargo space or 12.5 percent out of a total of 772,765 square feet of total cargo space at the Airport.

As a result of the Airport's "residual rate setting methodology" (the breakeven policy) used by the Airport to determine rental rates, landing fees, and related fees for all Airlines, the proposed rent reduction for China Airlines will not result in any budgetary shortfall for the Airport. The residual rate setting methodology is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from all of the airlines at the Airport, plus the non-airline revenues received by the Airport, is equal to the Airport's total costs, including debt service and operating expenditures. According to the Airport's breakeven policy, prior to the beginning of each fiscal year, the Airport determines the total airline revenues needed to balance the Airport's budget in the upcoming year, after considering all other non-airline revenue sources (such as concession revenues and parking revenues) and carrying forward any projected budget shortfall or surplus from the current fiscal year.

The amount needed to balance the Airport's budget then becomes the basis for calculating, by a formula specified in the leases with all of the airlines operating at the Airport, the rental rates, landing fees, and related fees charged to the airlines each fiscal year, such that the total revenues paid to the Airport by all airlines and other tenants in the upcoming fiscal year is sufficient to balance the Airport's budget. At the end of the fiscal year, any budgetary shortfall or surplus is carried forward into the following fiscal year and is used in the calculation of the new rental rates, landing fees, and related fees charged to the airlines and other tenants. Therefore, the rental reduction under the proposed lease renewal would not have a direct fiscal impact on the Airport.

## RECOMMENDATION

Approve the proposed resolution.





San Francisco International Airport

January 20, 2011

*File 110109*

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 Lease No. 10- 0347 between China Airlines, Ltd. 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 of Lease No. 10- 0347 (the "Lease") between the City and County of San Francisco, acting by and through its Airport Commission, and China Airlines, Ltd. ("China Airlines") for space to be occupied by China Airlines in Building 648. This Lease was approved by Airport Commission Resolution No. 10- 0347, adopted December 7, 2010.

The Lease provides for rental of approximately thirty-three thousand three hundred forty-six (33,346) square feet of cargo warehouse space and four thousand eight hundred thirty-six (4,836) square feet of support office space in Cargo Building 648 for a term of five (5) years with an annual rent of \$814,954.90.

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

- Board of Supervisors Resolution;
- Ethics Form SFEC-126;
- Approved Airport Commission Resolution No. 10-0347;
- Commission Memorandum; and
- Lease No. 10-0347

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

Very truly yours,

*Jean Caramatti*  
Jean Caramatti  
Commission Secretary

Enclosures

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2011 JAN 28 PM 12: 59  
BY \_\_\_\_\_  
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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

487

1 [APPROVE A LEASE WITH THE CHINA AIRLINES, LTD AT BUILDING 648.]  
2

3 **Resolution approving and authorizing the execution of Lease No. 10-0347 with China**  
4 **Airlines, Ltd. for cargo warehouse and support office space to be occupied by China**  
5 **Airlines, Ltd. in Building 648 at San Francisco International Airport.**  
6  
7

8 WHEREAS, China Airlines, Ltd ("China Airlines") has occupied cargo warehouse and  
9 support office space in Building 648 in the West Field Cargo Area for the past ten years  
10 pursuant Commission Resolution 00-0212, adopted on July 14, 2000, and Board of  
11 Supervisors' Resolution No. 95-99, adopted February 8, 1999; and

12 WHEREAS, The aforementioned lease will terminate on April 8, 2011; and

13 WHEREAS, China Airlines wishes to enter into a new lease for approximately thirty-  
14 three thousand three hundred forty six (33,346) square feet of cargo warehouse space and  
15 four thousand eight hundred thirty six (4,836) square feet of support office space to  
16 accommodate its integrated cargo operation at Building 648; and

17 WHEREAS, Airport staff has negotiated a renewal lease with China Airlines with a  
18 Term of five (5) years for cargo warehouse and support office space in Building 648 to  
19 accommodate China Airlines' cargo operation (the "Lease"); and

20 WHEREAS, On December 7, 2010, pursuant to Resolution No. 10- 0347, the Airport  
21 Commission approved the Lease with China Airlines. A copy of the form of the Lease is on  
22 file with the Clerk of the Board of Supervisors in File No. \_\_\_\_\_, which is hereby declared  
23 to be a part of this resolution as if set forth fully herein; now, therefore, be it  
24  
25

1           RESOLVED, That this Board of Supervisors hereby approves the five (5) Year Lease  
2 for cargo warehouse and support office space in Building 648, between China Airlines and the  
3 City and County of San Francisco, acting by and through its Airport Commission.  
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**AIRPORT COMMISSION**

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 10-0347

**RESOLUTION 1) APPROVING A LEASE WITH CHINA AIRLINES LTD., FOR CARGO WAREHOUSE AND OFFICE SPACE AT BUILDING 648, WEST FIELD CARGO BUILDING, ON PLOT 10, AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL**

**WHEREAS,** China Airlines Ltd., (“China Airlines”) is a Signatory Airline pursuant to the current Airline-Airport Lease and Use Agreement, L82-0318 and 2011 Lease and Use Agreement, L10-0082; and

**WHEREAS,** China Airlines currently conducts its cargo handling operations at Building 648 on Plot 10 pursuant to Lease No. 00-0212 with a ten (10) year term; and

**WHEREAS,** Lease No. L00-0212 expires on April 8, 2011 and China Airlines wishes to enter into a renewal lease at Building 648 at the West Field Cargo Area to continue its cargo operation at the Airport; and

**WHEREAS,** Airport staff has negotiated a lease with China Airlines with a Term of five (5) years for approximately 33,246 square feet of cargo warehouse space and 4,836 square feet of office space in Building 648 (the “Lease”); and

**WHEREAS,** the annual rent of \$814,954.80 is based on a rental rate of \$21.40 per square foot per year; now, therefore, be it


**RESOLVED,** that the Airport Commission hereby approves and authorizes the Airport Director to execute a five (5) year Lease with China Airlines for approximately 33,246 square feet of cargo warehouse space and 4,836 square feet of office space in Building 648 with a Term of five (5) years, at an annual rental of \$814,954.80 and 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 the Lease to the Board of Supervisors for approval.

I hereby certify that the foregoing resolution was adopted by the Airport Commission  
at its meeting of \_\_\_\_\_

DEC 07 2010

490

  
Secretary



San Francisco International Airport

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

**MEMORANDUM**

December 7, 2010

**TO: AIRPORT COMMISSION**  
Hon. Larry Mazzola, President  
Hon. Linda S. Crayton, Vice President  
Hon. Eleanor Johns  
Hon. Richard J. Guggenlime

**FROM: Airport Director**

**SUBJECT: Approval of a Lease with China Airlines, Ltd.**

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO

GAVIN NEWSOM  
MAYOR

LARRY MAZZOLA  
PRESIDENT

LINDA S. CRAYTON  
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GUGGENHIME

JOHN L. MARTIN  
AIRPORT DIRECTOR

**DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION: 1) APPROVING A LEASE WITH CHINA AIRLINES, LTD. FOR CARGO WAREHOUSE AND OFFICE SPACE AT BUILDING 648, WEST FIELD CARGO BUILDING 1, ON PLOT 10, AND 2) DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.**

**Executive Summary**

China Airlines, Ltd. ("China Airlines") wishes to enter into a renewal lease for cargo warehouse and office space at Building 648 on Plot 10, as shown on the attached Exhibit A, to conduct its air cargo operation. The leasehold is comprised of 33,246 square feet of cargo warehouse space and 4,836 square feet of office space with an annual rent of \$814,954.90 based on a rate of \$21.40 per square foot per year (the "Lease"). The proposed Lease will have a Term of five (5) years.

**Background**

China Airlines has operated at San Francisco International Airport, (the Airport") as a Signatory Airline since 1981 under the Airline-Airport Lease and Use Agreement L82-0318. China currently leases cargo warehouse and office space at Building 648 to conduct its cargo operation and is an approved new signatory airline to the 2011 Lease and Use agreement.

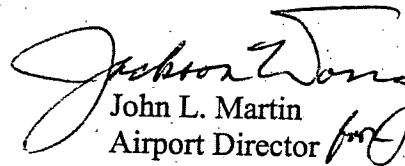
In 2000, the Airport completed construction of Building 648, also known as West Field Cargo Building I, located on Plot 10. Pursuant to Airport Commission Resolution No. 00-0212 and Board of Supervisors' approval, China Airlines entered into a lease for

9. **Maintenance:** The Airport will maintain the base-building infrastructure and building systems to a point of connection. The tenant will maintain all tenant improvements and all other systems or equipment located in the Premises.

China Airlines will be fully compliant with all City Regulations, including the City's Equal Benefits Ordinance, Minimum Compensation, and the Health Care Accountability Ordinance.

**Recommendation**

I recommend adoption of the accompanying Resolution that: 1) approves a Lease with China Airlines Ltd., with a Term of five (5) years at an annual rent of \$814,954.80 for 33,246 square feet of cargo warehouse space and 4,836 square feet of office space at Building 648, and 2) directs the Commission Secretary to forward the Lease to the Board of Supervisors for approval.

  
John L. Martin  
Airport Director

Prepared by: Leo Fermin  
Deputy Airport Director  
Business & Finance

Attachment







**LEASE AGREEMENT  
OF CHINA AIRLINES LTD.  
IN AIRPORT BUILDING 648 ON PLOT 10  
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

by and between

**CHINA AIRLINES LTD.,**  
as tenant

and

**CITY AND COUNTY OF SAN FRANCISCO  
ACTING BY AND THROUGH ITS AIRPORT COMMISSION,**  
as landlord

Mayor Gavin Newsom

**AIRPORT COMMISSION**

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

April 2011

Lease No. L \_\_\_\_\_

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**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): Mayor, Edwin M. Lee; Members, SF Board of Supervisors	City elective office(s) held: Mayor, City and County of San Francisco; Members, SF Board of Supervisors

<b>Contractor Information</b> <i>(Please print clearly.)</i>	
Name of contractor: China Airlines, Limited	
<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>	
1. Chairman of the Board: Wei, Hsing-Hsiung Board Directors: Chang, Chia-Juch / Sun, Huang-Hsiang / Lee, Yun-Ling / Ting, Kwang-Hung / Lee, Cho-Ping / Tsay, Ching-Yen / Chen, Chih-Yuan / Lo, Ta-Hsin / Lai, Ching-Chyi / Ko, Tso-Liang 2. Chief Executive officer : Sun, Huang-Hsiang Chief financial officer : Han, Liang-Chung Chief operating officer: Hsiung, Yu-Chung 3. China Aviation Develop Foundation. 4. Nil. 5. Nil.	
Contractor address: No. 1, Hangzhan S. Rd., Dayuan Township, Taoyuan County 33758, Taiwan, R.O.C.	
Date that contract was approved:	Amount of contract: \$814,954.90 Annually TBD each FY
Describe the nature of the contract that was approved: 2011 Airport/Airline Lease and Use Agreement	
Comments:	

This contract was approved by (check applicable):

- the City elective officer(s) identified on this form (Mayor, Gavin Newsom)
- a board on which the City elective officer(s) serves San Francisco Board of Supervisors  
Print Name of Board
- the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

<b>Filer Information</b> <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: () 415-554-5184
Address: City Hall, Room 244 1 Dr. Carlton B Goodlett Pl, SF CA 94102	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