

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

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TO: Budget and Finance Committee 
FROM: Budget and Legislative Analyst
SUBJECT: January 9, 2013 Budget and Finance Committee Meeting

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Item 5 File 12-1139	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would authorize the First Amendment to the existing lease between the San Francisco Airport and China Airlines, Limited (China Airlines) to add 439 square feet of administrative office space in the International Terminal Building.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • As previously approved by the Board of Supervisors (File 10-0351) on May 11, 2010, the San Francisco Airport (Airport) entered into a lease agreement with China Airlines for ten years from July 1, 2011 through June 30, 2021, for 3,409 square feet of space for a ticket office, VIP lounge, and ramp office; as well as, the use of Joint Use space in the International Terminal. • Under the existing lease, based on the Airport's residual rate setting methodology, China Airlines rent for FY 2012-13 is approximately \$580,733 per year for the 3,409 square feet of space for a ticket office, VIP lounge, and ramp office space. • Under the proposed First Amendment to the existing lease between the Airport and China Airlines, an additional 439 square feet of administrative office space would be added in the International Terminal Building. The amended lease of 3,848 (3,409 square feet of existing space and 439 square feet of additional space) would expire on June 30, 2021. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed amendment to the existing lease would commence in approximately February 2013 and would result in an increase of total rent of \$75,973 per year (approximately \$173 per square foot for 439 square feet), increasing from \$580,733 annually to \$656,706 annually. Therefore, following the approval of the First Amendment, China Airlines will pay rent in FY 2012-13, totaling \$612,388 (\$580,733 plus \$31,655). <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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 July 1, 2011, the Airport entered into a ten-year lease agreement through June 30, 2021, with China Airlines, Limited (China Airlines) for (a) 3,249 square feet of Category II space¹ for a China Airlines ticket office and a China Airlines VIP club and lounge; and (b) 160 square feet of Category III space² for a China Airlines ramp office, for a total of 3,409 square feet, which was previously approved by the Board of Supervisors (File 10-0351) on May 11, 2010. The lease also includes the use of Joint Use space³ in the International Terminal, which is space that has been leased by multiple airlines.

Under the existing lease, based on the Airport's residual rate setting methodology, China Airlines pays rent of (a) approximately \$173 per square feet per year for approximately 3,249 square feet of Category II space, or approximately \$562,272⁴ per year (approximately \$46,840 per month) and (b) approximately \$115 per square feet per year for approximately 160 square feet of Category III, or approximately \$18,461⁵ per year (approximately \$1,533 per month). Total annual rent in FY 2012-13 for the total space of 3,409 square feet (3,249 square feet plus 160 square feet) is approximately \$580,733 per year. Further, Ms. Teresa Rivor, Senior Property Manager San Francisco Airport, reports that China Airlines also pays rent according to the use of Joint Use space in the International Terminal which is space that has been leased by multiple airlines.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the First Amendment to the existing lease between the Airport and China Airlines to add 439 square feet of Category II administrative office space in the International Terminal Building. The amended lease of 3,848 (3,409 square feet of existing space plus the proposed 439 square feet of additional space) would expire on June 30, 2021. The

¹ Category II space includes: VIP Clubs and Lounges, Baggage Claim Lobbies, Baggage Service Offices, Curbside Check-in, Administrative Offices, and Other Enclosed Space, Departure Level and above.

² Category III space includes: Other Enclosed Space, Arrivals Level and below, Non-Public Offices and Other Enclosed Area, Arrivals Level and below.

³ Joint Use space means space in a Terminal that is leased or permitted for use by more than one Air Carrier with payments by the Air Carriers utilizing such space calculated using the Joint Use Formula applicable to such space.

⁴ Difference in total rent due to rounding.

⁵ Difference in total rent due to rounding.

First Amendment to the existing lease will be effective following approval of the Board of Supervisors.

FISCAL IMPACT

The proposed amendment to the existing lease would commence in February 2013 and result in an increase of total rent of \$75,973⁶ per year (approximately \$173 for 439 square feet), increasing from \$580,733 annually to \$656,706 annually, including an estimated increase of \$31,655 for the remaining five months of FY 2012-13.

The revenues generated by the lease 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 budgeted costs, including debt service and operating expenditures.

RECOMMENDATION

Approve the proposed resolution.

⁶ Difference in total rent due to rounding.