

AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
RESOLUTION NO. 18-0360

**APPROVAL OF MODIFICATION NO. 1 TO LEASE NO. GS-09P-LCA03395 WITH THE UNITED STATES OF AMERICA TO EXTEND THE TERM, INCREASE THE ANNUAL RENT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO. 1 TO THE BOARD OF SUPERVISORS FOR APPROVAL.**

WHEREAS, on October 13, 2015, pursuant to Resolution No. 15-0214, the Airport Commission approved Lease No. GS-09P-LCA03395 (the "Lease") between the United States of America ("Government") and the San Francisco International Airport ("Airport"), which provided for administrative office space for the U.S. Federal Bureau of Investigation ("FBI") in the International Terminal; and

WHEREAS, the Board of Supervisors subsequently approved the Lease on February 6, 2016, pursuant to Resolution No. 16-16; and

WHEREAS, the Lease provides for a premises comprised of approximately 2,396 square feet of Category II space in the International Terminal (the "Premises"), a three-year term which expires on January 3, 2019, and an annual rent of \$542,765.88; and

WHEREAS, the FBI wishes to continue occupancy of the Premises with a commensurate modification in annual rent; and

WHEREAS, Staff has negotiated a Lease modification with the General Services Agency on behalf of the Government to extend the term by three years, two years Firm, effective January 4, 2019 (the "Extension Term"), with a right of early termination of the Lease in the third year of the Extension Term, exercisable upon not less than sixty (60) days prior written notice, at the discretion of the Government; and

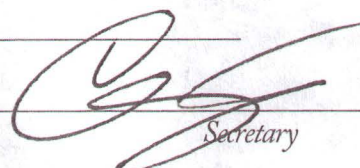
WHEREAS the annual rent will be increased to \$615,384.57, which is fixed for the duration of the Extension Term (collectively, the "Modification"); now, therefore, be it

RESOLVED, that the Airport Commission hereby approves the Modification No. 1 to Lease No. GS-09P-LCA03395 with the Government to extend the term by three years, two years Firm, and increase the annual rent to \$615,384.57, 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 Modification to Lease No. GS-09P-LCA03395 to the Board of Supervisors for approval.

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

NOV 06 2018

  
Secretary



**MEMORANDUM**

November 6, 2018

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 Lease No. GS-09P-LCA03395, with the United States of America, to Extend the Term and Increase the Annual Rent for Offices Occupied by the U.S. Federal Bureau of Investigation

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 1 TO LEASE NO. GS-09P-LCA03395, WITH THE UNITED STATES OF AMERICA, TO EXTEND THE TERM OF THE LEASE BY THREE YEARS, TWO YEARS FIRM, AND INCREASE THE ANNUAL RENT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD LEASE MODIFICATION NO.1 TO THE BOARD OF SUPERVISORS FOR APPROVAL.

**Executive Summary**

Pursuant to Lease No. GS-09P-LCA03395 (the "Lease"), between the United States of America ("Government") and the San Francisco International Airport ("Airport"), the U.S. Federal Bureau of Investigation ("FBI") occupies approximately 2,396 square feet of office space in the International Terminal. The Lease expires on January 3, 2019 and the FBI wishes to continue occupancy for up to an additional three years. The proposed modification will extend the term by three years (the "Extension Term"), with an option in favor of the Government to terminate the Lease during the third year upon not less than sixty (60) days prior written notice, and increase the annual rent to \$615,384.57 (the "Modification").

**Background**

The FBI, a department of the Government, occupies approximately 2,396 square feet of Category II office space in the International Terminal on the fifth floor of the South Shoulder Building, pursuant to the aforementioned Lease (the "Premises"). On October 13, 2015, the Airport Commission approved said Lease pursuant to Resolution No. 15-0214, and on February 4, 2016, the Board of Supervisors approved said Lease pursuant to Resolution No. 16-16.

THIS PRINT COVERS CALENDAR ITEM NO. 8

The current Lease has a term of three years, expiring on January 3, 2019, and provides for an annual rent of \$542,765.88, which is fixed for the term of the Lease. The rent is comprised of terminal rent (“Terminal Rent”) and an operating cost charge for services provided by the Airport, including janitorial services, re-lamping of light fixtures, and utilities (collectively, “Operating Cost”), as more fully described below.

The FBI wishes to continue occupancy of the Premises pursuant to the proposed Modification, which extends the term by the Extension Term, two years of which are Firm, meaning that the third year is subject to a termination right in favor of the Government. The Extension Term will commence January 4, 2019 and the annual rent will increase to \$615,384.57 per year, which is fixed for the duration of the Extension Term. Pursuant to the Modification the Government, at its discretion, has the right to terminate the Lease effective during the third year of the Extension Term with no later than sixty (60) days prior to the date that the Government will relinquish the Premises to the Airport (the “Government Termination Right”).

Although the Government Termination Right is intended to allow the FBI to relocate to the Airport’s new Courtyard 3 Connector Building, upon completion of its construction, the exercise of such right is within the Government’s discretion and is not contingent upon the execution of a new lease for the Courtyard 3 Connector Building. Staff will return to the Airport Commission to seek approval of a new lease with the Government for any occupancy of the Courtyard 3 Connector Building by the FBI at the appropriate time.

### **Proposal**

Staff has negotiated and is seeking approval of the proposed Modification No. 1 of the Lease to accommodate the FBI’s continued need for administrative offices, which provides for the following business terms:

1. **Extension Term.** Three years, two years Firm.
2. **Effective Date.** January 4, 2019.
3. **Early Termination.** The Government may terminate the Lease at any time effective during the third year of the Extension Term, contingent upon transmitting written notice to the Airport no later than 60 days prior to the date it will relinquish possession of the Premises.
4. **Annual Rent:** The total annual rent of \$615,384.57 (\$51,282.05 per month), paid monthly in arrears, is fixed for the Extension Term and is based on a negotiated rental rate of \$256.84 per square foot per year. The total annual rental rate is comprised of Terminal Rent and an Operating Cost for provision of services and was derived as follows:
  - Assume the initial rate for Terminal Rent is based on FY 18/19 Category II Rates and Charges of \$233.21 per square foot per year; then
  - Escalate that rate by projected increases of 8% per year over the three-year term, as provided by the Airport’s Financial Planning and Analysis; then

- Assume an initial Operating Cost rate of \$9.15 per square foot based on projections from Airport Facilities; then
- Escalate the Operating Cost rate by 5% per year based on a conservative projection for inflation; then
- Determine the net present value of the Annual Rent (Terminal Rent plus Operating Cost) based on the Federal Office of Management and Budget's discount rate set at 4.2%.


The initial rates, net present value rates, and rent are shown below:

Rent Component Per Sq. Ft. Per Year	Initial Rate and Fees	Net Present Value	Fixed Rent and Fees
Terminal Rent	\$233.21	\$247.40	\$592,779.89
Operating Cost	\$9.15	\$9.43	\$22,604.68
<b>Total</b>	<b>\$242.36</b>	<b>\$256.83</b>	<b>\$615,384.57</b>

5. **Operating Cost.** Reimbursement for direct Airport provision of janitorial services, re-lamping of light fixtures, and utilities (electricity and water/sewer).

**Recommendation**

I recommend adoption of the accompanying Resolution that approves Modification No. 1 to Lease No. GS-09P-LCA03395 with the Government, which extends the term by three years, two years Firm, effective January 4, 2019, and increases the annual rent to \$615,384.57. I further recommend directing the Commission Secretary to forward the Modification to the Board of Supervisors for approval, in accordance with City Charter Section 9.118.



Ivar C. Satero  
Airport Director

Prepared by: Leo Fermin  
Chief Business and Finance Officer

Attachments

Attachment A

UNITED STATES GOVERNMENT PREMISES

