

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: October 11, 2023 Budget and Finance Committee Meeting

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Item 9
File 23-0965

Department: Airport (AIR)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second modification to the Airport's current lease agreement with the federal Drug Enforcement Administration (DEA), extending the term by two years, from October 1, 2023 through September 30, 2025, and increasing the total annual rent from \$569,635 to \$620,611.

Key Points

- In December 2015, the Board of Supervisors retroactively approved a five-year lease for the DEA to occupy 2,612 square feet office space at the Airport. The lease was effective from October 1, 2015 to September 30, 2020 and provided for fixed annual rent of \$431,764.
- In October 2020, the Board of Supervisors approved Lease Modification No. 1, which extended the term of the lease for three years to September 30, 2023 and increased the annual rent to \$569,635. The lease is currently operating on a holdover status on a month-to-month basis, pending full City approval of the proposed lease extension.
- On August 15, 2023, the Airport Commission approved Lease Modification No. 2. The second amendment would extend the term of the lease for two years until September 30, 2025 for a total term of ten years.
- Under the proposed amendment, the DEA may terminate the lease in whole or in part after one year, upon providing at least 30 days written notice. In addition, the Airport may relocate the DEA to similar premises, if necessary for Airport development purposes, with at least 120 days prior written notice.

Fiscal Impact

- Under the proposed lease terms, the annual rent and operating costs paid to the Airport are \$620,611, or \$1,241,222 for the two-year extension term. This reflects an increase of \$50,976 per year (8.9 percent) from the existing lease.
- Annual rent payments totaling \$620,611 are comprised of base rent of \$580,595 (\$222.28 per square foot) and operating rent of \$40,016 (\$15.32 per square foot). Rent also includes eight onsite parking permits. Operating rent pays for the Airport to provide janitorial, maintenance, electrical, water, and sewage services.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Section 2A.173 of the City’s Administrative Code authorized the Airport to execute lease of Airport lands and space in Airport buildings to any agency of government, without undergoing a competitive bid process, if the original term of the lease does not exceed 50 years.

City Charter Section 9.118(c) states that any modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In December 2015, the Board of Supervisors retroactively approved a five-year lease for the federal Drug Enforcement Administration (DEA) to occupy 2,612 square feet office space for administrative and operations offices in San Francisco International Airport (Airport) Terminal 3 (File 15-1023). The lease was effective from October 1, 2015 to September 30, 2020 and provided for fixed annual rent of \$431,764. In October 2020, the Board of Supervisors approved Lease Modification No. 1, which extended the term of the lease for three years to September 30, 2023 and increased the annual rent to \$569,635 (File 20-0967). The lease is currently operating on a holdover status on a month-to-month basis, pending full City approval of the proposed lease extension.

On August 15, 2023, the Airport Commission approved Lease Modification No. 2.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second modification to the Airport’s current lease agreement with the federal Drug Enforcement Administration (DEA), extending the term by two years, from October 1, 2023 through September 30, 2025, and increasing the total annual rent from \$569,635 (\$218.09 per sf/year) to \$620,611 (\$237.60 per sf/year). The Airport will continue to be reimbursed for the costs of providing maintenance, janitorial services and utilities, through an operating cost component of the total annual rent.

Exhibit 1. Summary of Airport-Drug Enforcement Administration (DEA) Lease Provisions

	Amendment 1 Current	Amendment 2 Proposed
Operating Term	Oct. 2020-Sep. 2023, 3 years	Oct. 2023-Sept 2025, 2 years
Options to Extend	No	No
Terminal 3, 1st Floor	2,612 square feet	2,612 square feet
Terminal 3 Annual Rent & Operating Expenses	\$569,635 (\$218.09 sf/year)	\$620,611 (\$237.60 per sf/year)

Source: Draft Lease Amendment No. 2 to GSA Lease No. GS-09P-LCA03384

The term of the existing lease expired on September 30, 2023. The second amendment would extend the term of the lease for two years until September 30, 2025, for a total term of ten years. According to the Airport, the Lease is operating on a holdover status on a month-to-month basis until full City approval is obtained.

Rent

Under the proposed amendment, the Government (DEA) will pay the Airport annual rent in monthly installments. Annual rent payments total \$620,611, comprised of base rent at \$580,595 annually (\$222.28 per square foot), and operating rent at \$40,016 (\$15.32 per square foot). Operating costs include janitorial, maintenance, electrical, water, and sewage. Rent also includes eight onsite parking permits.

Termination and Relocation

Under the proposed lease modification, the DEA may terminate the lease in whole or in part after one year, upon providing at least 30 days written notice. In addition, the Airport may relocate the DEA to similar premises, if necessary for Airport development purposes, with at least 120 days prior written notice.

FISCAL IMPACT

The Airport Commission approves the Airport's rates annually for use of Airport space. In FY 2023-24, the annual rate for Category III space¹ in the Airport terminals is \$195.64 per square foot. Under the proposed Lease Modification No. 2, the DEA would pay rent of \$222.28 per square foot in Terminal 3. According to the Airport, this rent figure was determined based on annual projected increases from the SFO Finance Division, with projected rates averaging over the 24-month term. In addition to facility rent of \$222.28 per square foot, the DEA would pay additional rent of \$15.32 per square foot for operating costs, for total annual rent of \$237.60 per square foot. Operating costs are based on costs per square foot for services provided by the Airport Facilities Division.

Under the proposed lease terms, the annual rent and operating costs paid to the Airport are \$620,611, or \$1,241,222 for the two-year extension term. This reflects an increase of \$50,976 per year (8.9 percent) from the existing lease.

RECOMMENDATION

Approve the proposed resolution.

¹ Category III space in the Airport is defined by the Airport as, "Other enclosed space arrivals level and below, non-public offices, and other enclosed area arrivals level and below."