

File No. 110396

Committee Item No. 1  
Board Item No. 11

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee Date: April 27, 2011

Board of Supervisors Meeting

Date 5/3/11

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Motion                                       |
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| <input type="checkbox"/>            | <input type="checkbox"/>            | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Report                |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form (for hearings)             |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
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| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |

#### OTHER

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- |                                     |                          |  |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | * <u>Lease Agreement - Asiana Airlines</u> |
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| <input type="checkbox"/>            | <input type="checkbox"/> | _____                                      |
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Completed by: Victor Young  
Completed by: Victor Young

Date: April 22, 2011  
Date: 4-28-11

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 - Asiana Airlines, Ltd - Building 648]

2  
3 **Resolution approving and authorizing the execution of Lease No. 11-0049 with Asiana**  
4 **Airlines, Inc., for cargo warehouse and support office space to be occupied by Asiana**  
5 **Airlines, Inc., in Building 648 at San Francisco International Airport.**

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

11 WHEREAS, The aforementioned lease will terminate on May 5, 2011; and,

12 WHEREAS, Asiana Airlines wishes to enter into a new lease for approximately thirty-  
13 three thousand three hundred thirty-nine (33,339) square feet of cargo warehouse space and  
14 six thousand three hundred thirty-nine (6,339) square feet of support office space to  
15 accommodate its integrated cargo operation at Building 648; and,

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

19 WHEREAS, On March 1, 2011, pursuant to Resolution No. 11-0049, the Airport  
20 Commission approved the Lease with Asiana Airlines. A copy of the form of the Lease is on  
21 file with the Clerk of the Board of Supervisors in File No. 110396, which is hereby declared to  
22 be a part of this resolution as is set forth fully herein; now, therefore, be it

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

**Item 1**  
**File 11-0396**

**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 Asiana Airlines, Inc. (Asiana Airlines), for 33,339 square feet of cargo space and 6,339 square feet of support office space, including non-exclusive ramp and parking space at the Airport, for a total of 39,678 square feet.

### Key Points

- Asiana 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) 34,691 square feet of cargo warehouse space, providing 11 truck docking spaces, and (b) 4,987 square feet of office space, for a total of 39,678 square feet. The lease also provides for non-exclusive use of ramps and employee and aircraft parking. Under the existing lease, Asiana Airlines pays the Airport annual rent of \$943,146 for a total of 39,678 square feet.
- During the existing lease, due to Asiana Airlines' need for additional office space, Asiana Airlines converted 1,352 square feet of warehouse space to support office space, reducing the square footage of warehouse space from 34,691 square feet to 33,339 square feet and increasing their office space by 1,352 square feet from 4,987 square feet to 6,339 square feet. The total square footage of leased space remained the same at 39,678 square feet. Under the proposed five-year lease with Asiana Airlines this allocation of space and the total square footage would remain the same. The proposed lease would also continue to provide for non-exclusive use of ramps and employee and aircraft parking.

### Fiscal Impacts

- The proposed lease renewal, which would begin on May 5, 2011, would result in an annual rent reduction to Asiana Airlines of \$94,037 or approximately ten percent to Asiana Airlines, from \$943,146 currently being paid to the Airport to \$849,109. This reduction in rent is due to 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.
- 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 26, 2000, the Board of Supervisors approved Resolution No. 690-00, authorizing the current lease between Asiana Airlines, Inc. (Asiana Airlines) and the San Francisco International Airport (Airport). The existing lease extends for a term of ten years and four months, from January 1, 2001 through May 4, 2011, and initially included a total of 39,874 square feet, including (a) 34,887 feet of cargo warehouse space, which provides for 11 truck docking spaces and (b) 4,987 square feet of office space in Building 648, located in the West Field Cargo Area of the Airport. The lease also provides for non-exclusive use of ramp areas and employee and aircraft parking. On August 1, 2001, the Airport approved reducing the amount of cargo space leased to Asiana Airlines by 196 square feet from 34,887 to 34,691 square feet for a total leased space of 39,678 square feet (39,874 less 196) because Airport equipment that was located in the Asiana Airlines cargo leased space was occupying a portion of the originally leased space. This reduction was retroactive to May 1, 2001. 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 \$783,641 per year.

At some point during the ten year and four month-term of the existing lease, Asiana Airlines converted 1,352 square feet of warehouse space to support office space, reducing the square footage of warehouse space from 34,691 square feet to 33,339 square feet and increasing the support office space from 4,987 square feet to 6,339 square feet, based on Asiana Airlines' need for increased support office space. The total square footage of leased space remained the same at 39,678 square feet. According to Mr. Dan Ravina, Senior Property Manager for the Aviation Division of the Airport, the Airport is not certain as to the date that the conversion took place since the lease did not need to be amended because the rental rates for office and warehouse space under the existing lease are the same.

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 Asiana 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

<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.

\$8,611,688 of rental revenues from the existing cargo operations and related office space lease with Asiana Airlines.

<b>Table 1: History of Annual Rent Per Square Foot and Total Annual Revenues Received by the Airport Under the Current Lease</b>		
	<b>Annual Rent per Square Foot</b>	<b>Annual Lease Amount</b>
2001	\$19.75	\$783,641
2002	20.11	797,820
2003	20.78	824,512
2004	20.82	826,180
2005	21.15	839,108
2006	21.77	863,715
2007	22.46	891,189
2008	23.08	915,896
2009	23.35	926,481
2010	23.77	943,146
<b>Total</b>		<b>\$8,611,688</b>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Asiana Airlines to renew its existing lease with the Airport for a term of five years, from May 5, 2011 through May 4, 2016. Specifically, the proposed lease would authorize Asiana Airlines to lease a total of 39,678 square feet of space, including (a) 33,339 square feet of cargo warehouse space that provides 11 truck docking spaces, and (b) 6,339 square feet of office space in Building 648. The proposed lease would also provide Asiana Airlines with non-exclusive use of various ramp areas and employee and aircraft parking.

As noted above, Asiana Airlines currently leases a total of 39,678 square feet of space at the Airport, including 6,339 square feet of office space, which includes 1,352 square feet of space previously converted from warehouse to office space during the term of the existing lease. The proposed lease would codify that conversion of space by reducing the square footage of warehouse space included in the proposed lease from 34,691 square feet to 33,339 square feet, a reduction of 1,352 square feet and increasing the support office space included in the proposed lease by 1,352 square feet from 4,987 square feet to 6,339 square feet. Under the proposed lease

renewal, the total square footage of leased space would remain the same at 39,678 square feet (33,339 plus 6,339).

The proposed lease is based on a rate of \$21.40 per square foot per year for a total annual rent of \$849,109. 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 \$94,037 or approximately ten percent for Asiana Airlines, from \$943,146 (see Table 1 above) currently being paid to the Airport to \$849,109. This reduction in rent is due to 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
Total Space (Square Feet)	39,678	39,678	0
x Annual Rental Rate	\$23.77	\$21.40	\$2.37
Annual Rent	\$943,146	\$849,109	\$94,037

According to Mr. Dan Ravina, the reason for the reduction in the rental rate per square foot is that “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.” Mr. Ravina advises that 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 Asiana 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

March 14, 2011

*File 110396*

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. 11-0049 between Asiana Airlines, 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 of Lease No. 11- 0049 (the "Lease") between the City and County of San Francisco, acting by and through its Airport Commission, and Asiana Airlines, Inc. ("Asiana Airlines") for space to be occupied by Asiana Airlines in Building 648. This Lease was approved by Airport Commission Resolution No. 11- 0049, adopted March 1, 2011.

The Lease provides for rental of approximately thirty-three thousand three hundred thirty-nine (33,339) square feet of cargo warehouse space and six thousand three hundred thirty-nine (6,339) square feet of support office space in Cargo Building 648 for a term of five (5) years with an annual rent of \$849,109.20.

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

- Board of Supervisors Resolution; and
- Form SFEC-126; and
- Approved Airport Commission Resolution No. 11-0049; and
- Commission Memorandum; and
- Lease No. 11-0049

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

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2011 MAR 30 PM 1:24  
BY [initials]

Very truly yours,

*Jean Caramatti*  
Jean Caramatti  
Commission Secretary

Enclosures

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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AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 11-0048

**RESOLUTION 1) APPROVING A LEASE WITH ASIANA AIRLINES INC., 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, Asiana Airlines, Inc., ("Asiana Airlines") is a Signatory Airline pursuant to the current Airline-Airport Lease and Operating Agreement, L99-0318 and 2011 Lease and Use Agreement, L10-0079; and,

WHEREAS, Asiana Airlines currently conducts its cargo handling operations at Building 648 on Plot 10 pursuant to Lease No. 00-0213 with a ten (10) year term; and,

WHEREAS, Lease No. L00-0213 expires on May 4, 2011, and Asiana 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 Asiana Airlines with a Term of five (5) years for a total of approximately 39,678 square feet of cargo warehouse and office space in Building 648 (the "Lease"); and,

WHEREAS, the annual rent of \$849,109.20 is based on a rental rate of \$21.40 per square foot per year; now, therefore, be it

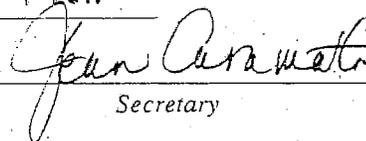
RESOLVED, that the Airport Commission hereby approves and authorizes the Airport Director to execute a five (5) year Lease with Asiana Airlines for a total of approximately 39,678 square feet of cargo warehouse and office space in Building 648 with a Term of five (5) years, at an annual rental of \$849,109.20 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 \_\_\_\_\_

MAR 0 1 2011

  
Secretary

\*Complete copy of document  
located in File No. 110396

**LEASE AGREEMENT  
OF ASIANA AIRLINES, INC.  
IN AIRPORT BUILDING 648 ON PLOT 10  
AT SAN FRANCISCO INTERNATIONAL AIRPORT**

by and between

**ASIANA AIRLINES, INC.,**  
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. Eleanor Johns  
Hon. Richard J. Guggenhime  
Hon. Peter A. Stern

May 2011

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

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2011 MAR 30 PM 1:25  
BY \_\_\_\_\_

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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> (Please print clearly.)	
Name of City elective officer(s):  Members, SF Board of Supervisors	City elective office(s) held:  Members, SF Board of Supervisors
<b>Contractor Information</b> (Please print clearly.)	
Name of contractor: <b>Asiana Airlines</b>	
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. <b>Board Members:</b> CEO: Yoon, Yong Doo; CFO: Han, Chang Soo; COO: Kim, Jae IL, EVP: Park, Hyun Ok; Hyun, Dong Shil; Lee, Ho Il; Kim, Hyoung Gyun.	
Contractor address: Asiana Town, P.O. Box 98, 470soe-Dong, Gangseo-Gu, Seoul, South Korea	
Date that contract was approved: TBD	Amount of contract: 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 ;
- 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> (Please print clearly.)	
Name of filer: <b>Angela Calvillo, Clerk of the Board</b>	Contact telephone number: () 415-554-5184
Address: <b>City Hall, Room 244 1 Dr. Carlton B Goodlett Pl, SF CA 94102</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

