MEMORANDUM

September 9, 2014

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Modification No. 1 to Fixed Base Operator Lease and Operating Agreement No. L07-0106 with Signature Flight Support Corporation

DIRECTOR'S RECOMMENDATION: (1) APPROVE MODIFICATION NO. 1 TO FIXED BASE OPERATOR LEASE AND OPERATING AGREEMENT NO. L07-0106 WITH SIGNATURE FLIGHT SUPPORT CORPORATION, AND (2) DIRECT THE COMMISSION SECRETARY TO REQUEST THE BOARD OF SUPERVISORS' APPROVAL OF THE MODIFICATION.

Executive Summary

Signature Flight Support Corporation ("Signature") was awarded the Fixed Base Operator Lease and Operating Agreement ("Agreement"), with a term of ten (10) years, from October 1, 2007 through September 30, 2017. A material condition of the Agreement required Signature to construct a new hangar facility. From 2009 through 2012, the Airport approved Signature's requests to defer the construction of the hangar facility for reasons described herein. In May 2013, the Airport denied Signature's request for another year of deferment and Signature started construction of the new hangar in November.

Staff seeks the Airport Commission's approval for a five-year Term extension, for a new expiration date of September 30, 2022, in order to retain the Agreement's above-market value and to allow Signature to amortize their investment in the new hangar, currently estimated to be $10,000,000. All Agreement obligations will remain unchanged, including the Minimum Annual Guarantee ("MAG").

Background

On September 19, 2006, the Airport Commission ("Commission") adopted Resolution No. 06-0178 authorizing staff to commence a competitive selection process and issue a Request for Proposals ("RFP") for the Agreement. The premise is located on Plot 42 and is used to accommodate, store, and maintain general aviation aircraft. The RFP provided for a lease and operating agreement with a term of ten (10) years, percentage rent as proposed in each of several service categories, and an initial MAG of no less than $3,500,000. Airport staff received five proposals for the Agreement, on March 23, 2007, in response to the RFP.

THIS PRINT COVERS CALENDAR ITEM NO. 3

On May 15, 2007, the Commission adopted Resolution No. 07-0106 awarding the Agreement to Signature with the following material terms:

1. Base rent is the greater of:
   - MAG of $11,000,000, as proposed by the Signature, with annual Consumer Price Index adjustments, or
   - The sum of percentage rent in various categories:
     a) 100% of Aircraft Landing Fees
     b) 27% of Fuel Sales
     c) 55% of Aircraft Parking Fees
     d) 40% of Advertising Gross Revenues
     e) 26% of Other Gross Revenues
     f) 1% of Aircraft Sales
2. Term of ten (10) years, from October 1, 2007 to September 30, 2017.
3. Required investment of no less than $930,000 in refurbishing the Executive Air Terminal, and no less than $1,292,750 in improving the existing hangars and other facilities.
4. Although not required, Signature proposed and agreed to construct a new hangar on Plot 42 at its sole cost, subject to Commission approval, which title to the new hangar shall vest in the City upon completion and acceptance.

On July 31, 2007, the Board of Supervisors adopted Resolution No. 436-07 approving award of the Agreement to Signature.

On November 18, 2008, the Commission adopted Resolution No. 08-0208 approving the construction of the new hangar. The Airport took the necessary actions, e.g. environmental approval, to authorize the construction of the new hangar facility. Subsequently, beginning in 2009, the aviation industry experienced an unprecedented decline in demand for hangar storage in business aviation travel and the economic environment of the general aviation business; thus, Signature requested and the Airport granted one (1) year deferments, in 2009, 2010, 2011, and 2012, for the construction of the new hangar facility. In May 2013, the Airport denied Signature's request for another deferment.

While Signature acknowledged their commitment and Agreement obligation related to the construction of a new hangar, it indicated the following challenges:

1. The MAG payable to the Airport, which is currently at $12,517,536, far exceeds the current scenario across the country;
2. Its investment, as required by their proposal and by the Agreement, was $4,500,000 for existing facility improvements versus the RFP required investment of $2,200,000;
3. Signature received LEED Certification Gold Rating from the U.S. Green Building Council following the completion of the facility improvements.
4. Its projected cost to construct the new hangar had increased from $7,500,000 (2009) to approximately $10,000,000 (2014);

The Agreement is in its seventh year. Following approval of a five-year extension and with the assumption of 2% yearly increases during the extension term based on Consumer Price Index adjustments, the MAG is projected to be at $14,666,289 by Year 15 (2021).

Airport staff has conducted an extensive survey of MAG requirements across the country for fixed base operations ("FBO") similar to SFO's and determined that the current MAG paid by Signature is well above market value. The next highest MAG for a similar FBO is $9,300,000 at Miami International Airport. All other FBOs surveyed paid an average of $4,320,000 in MAG, as detailed on Attachment A.

Proposal

Staff and Signature have negotiated the terms of Modification No. 1 to the Agreement, as follows:

1. **Term Extension:** One five-year extension, for a new expiration date of September 30, 2022. This extension will assure that Signature's MAG, at above market value, will continue.
2. **Completion Date:** Construction of the new hangar, which will measure approximately 25,000 square feet (located as shown on Exhibit A), is currently in progress and will be completed no later than November 2014.
3. **Required Improvements:** Renovation of the Executive Air Terminal within one hundred eighty (180) days from October 1, 2017 or a later date, as may be approved by the Director. Renovation will include, but will not be limited to: (i) renovating the Executive Air Terminal Building and hangar; (ii) upgrading the camera monitoring system throughout the FBO; (iii) installing updated and more environmentally friendly landscaping; (iv) installing more efficient HVAC systems; (v) replacing the existing monument sign with a LED-lit sign; and (vi) updating paint, carpet and furniture to ensure the finest traveler experience consistent with standards established for Terminal 2 at the Airport and that exceeds the current condition at the Executive Air Terminal.

All other terms and conditions contained in the Agreement remain in full force and effect.

Recommendation

I recommend adoption of the attached Resolution (1) approving Modification No. 1 to Fixed Based Operator Lease and Operating Agreement No. L07-0106 with Signature Flight Support Corporation, which extends the Agreement Term for five (5) years, for a new expiration date of September 30, 2022, and requires the renovation the Executive Air Terminal, and (2) directing the Commission Secretary to request the Board of Supervisors' approval of the Modification.

John L. Martin
Airport Director

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Chief Business and Finance Officer

ATTACHMENT A

Comparison of Minimum Annual Guarantee (MAG) at Other Airports

Airport	Minimum Annual Guarantee (MAG) Paid 2013
San Francisco	$12.5M
Dulles	$10.9M[1]
Miami	$9.3M
San Diego	$5.3M
Las Vegas	$5.3M[2]
Boston	$2.8M
Tampa	$2.7M
San Jose	$2.6M[3]
Newark	$2.3M
Chicago	$1.4M
Orlando	$0.6M
Denver	0[4]
Portland	0[5]
Philadelphia	0[6]

Data Source: Signature Flight Support, FAA Form 127 and surveys of staffs at other Airports.

Note: Lease structures vary at each airport

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[1] Two operators: (1) $4.9M and (2) $6.0M for a combined $10.9M
[2] Two operators: (1) $3.5M and (2) $1.8M for a combined $5.3M
[3] $2.6M (lease yet to commence)
[4] No MAG. $600K revenue paid.
[5] No MAG. $2.1M revenue paid.
[6] No MAG. $2.5M revenue paid.

Exhibit A

Location of New Hangar