

File No. 180154

Committee Item No. 7
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date March 22, 2018

Board of Supervisors Meeting

Date _____

Cmte Board

<input type="checkbox"/>	<input type="checkbox"/>	Motion
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Resolution
<input type="checkbox"/>	<input type="checkbox"/>	Ordinance
<input type="checkbox"/>	<input type="checkbox"/>	Legislative Digest
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Budget and Legislative Analyst Report
<input type="checkbox"/>	<input type="checkbox"/>	Youth Commission Report
<input type="checkbox"/>	<input type="checkbox"/>	Introduction Form
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Department/Agency Cover Letter and/or Report
<input type="checkbox"/>	<input type="checkbox"/>	MOU
<input type="checkbox"/>	<input type="checkbox"/>	Grant Information Form
<input type="checkbox"/>	<input type="checkbox"/>	Grant Budget
<input type="checkbox"/>	<input type="checkbox"/>	Subcontract Budget
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Contract/Agreement
<input type="checkbox"/>	<input type="checkbox"/>	Form 126 – Ethics Commission
<input type="checkbox"/>	<input type="checkbox"/>	Award Letter
<input type="checkbox"/>	<input type="checkbox"/>	Application
<input type="checkbox"/>	<input type="checkbox"/>	Public Correspondence

OTHER (Use back side if additional space is needed)

<input checked="" type="checkbox"/>	<input type="checkbox"/>	<u>Airport Commission Resolution</u>
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Completed by: Linda Wong Date March 16, 2018

Completed by: Linda Wong Date _____

1 [Ground Lease - United States Postal Service - Plot 10F - \$1,497,000 Initial Annual Rent]

2
3 **Resolution retroactively approving a Ground Lease between the United States Postal**
4 **Service, and the City and County of San Francisco, acting by and through its Airport**
5 **Commission, for occupancy of approximately 8.61 acres of land, at an initial annual**
6 **rent of \$1,497,000 and four five-year options to extend the term, for the period of**
7 **September 1, 2017, through August 31, 2022.**

8
9 WHEREAS, The United States Postal Service (the "Postal Service") occupies
10 approximately 8.61 acres of land at Plot 10F, pursuant to Public Utilities Commission Lease
11 No. 24392, for operation of an International Service Center ("ISC") at the San Francisco
12 International Airport; and

13 WHEREAS, The lease provides for a current annual rent of \$1,054,574.11 and a term
14 of fifty years, which term expired on August 31, 2017; and

15 WHEREAS, The Postal Service desires to continue occupancy of Plot 10F pursuant to
16 a new ground lease in order to continue operation of the ISC; and

17 WHEREAS, Airport staff has negotiated a new ground lease with the Postal Service
18 with an initial annual rent of \$1,497,000 and a term of five years and four five-year options to
19 extend the term, at the Airport's discretion, but subject to the Postal Service's approval of
20 funding (the "Lease"); and

21 WHEREAS, On September 19, 2017, pursuant to Resolution No. 17-0232, the Airport
22 Commission approved Lease L17-0232 with the Postal Service for 8.61 acres of land at
23 Plot 10F, with an initial annual rent of \$1,497,000 and a term of five years and four five-year
24 options to extend the term, however, the aforementioned Resolution cited an annual rent
25 of \$1,445,600 in error; subsequently, on December 19, 2017, pursuant to Resolution

1 No. 17-0325, the annual rent was corrected and restated as \$1,497,000 and the initial
2 Resolution number was replaced by Resolution No. 17-0325, a copy of the form of the Lease
3 is on file with the Clerk of the Board of Supervisors in File No. 180154, which is hereby
4 declared to be a part of this resolution as if set forth fully herein; now, therefore, be it

5 RESOLVED, That this Board of Supervisors hereby approves the Lease between the
6 United States Postal Service and the City and County of San Francisco, acting by and through
7 its Airport Commission, for approximately 8.61 acres of land at Plot 10F, with an annual rent
8 of \$1,497,000 and a term of five years, and four five-year options to extend the term at the
9 Airport's sole discretion, but subject to the Postal Service's approval of funding; and, be it

10 FURTHER RESOLVED, That within 30 days of the contract being fully executed by all
11 parties, the Airport Commission shall provide a copy of the final contract to the Clerk of the
12 Board for inclusion into the official file.
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Item 7 File 18-0154	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> The proposed resolution would retroactively approve a ground lease between the United States Postal Service (Postal Service), and the Airport Commission for approximately 8.61 acres of land. The initial ground lease term is for five years, retroactive to September 1, 2017 through August 31, 2022 with four (4) five-year options to extend through 2024. The initial annual rent is \$1,497,000, increasing by 3 percent per year. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> The Postal Service has occupied Plot 10F, located at the West Field Cargo Area since 1964. The Postal Service was awarded a ground lease through a non-competitive process, and constructed and maintained all facilities and structures currently on the premises. The ground lease, which was first amended in 1998, expired on August 1, 2017. The Airport Commission approved the new ground lease with the Postal Service in September 2017. However, due to an error in the resolution, the Airport Commission approved an updated resolution in December 2017. The Airport did not try to find a new tenant to enter into a facility lease at the site, although a facility lease would generate higher rent than a ground lease, due to the highly specialized facilities constructed by the Postal Service. The ground lease site in the West Field Cargo area is slated for redevelopment in approximately 2026, and the Airport believed that finding a new tenant that would enter into a facility lease would be unlikely because the site would require the tenant to make significant improvements which could not be amortized over an eight year period. The proposed ground lease is for a possible total term of 25 years rather than eight years because in the event the redevelopment plans change, the Postal Service can continue to occupy the site and the Airport will continue to receive rent from the Postal Service. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> The Postal Service will pay the Airport a total of \$7,947,756 of rent over the initial five years term. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that leases of City property for a period of ten or more years or having anticipated revenue of \$1 million or more require Board of Supervisors approval.

BACKGROUND

The United States Postal Service (Postal Service) has occupied Plot 10F, located at the northwest corner of West Field Road and West Cargo Road at the San Francisco Airport (West Field Cargo Area), since 1964. The Postal Service was awarded a ground lease through a non-competitive process, and constructed and maintained all facilities and structures currently on the premises. The title to these improvements, except personal property and equipment, vested in the City in 1974. The ground lease, which was first amended in 1998, expired on August 1, 2017.

The Postal Service and the Airport entered into negotiations for a new lease in 2016 before the expiration of the ground lease. In September 2017, the Airport Commission approved the new ground lease with the Postal Service. However, due to an error in the resolution, the Airport Commission approved an updated resolution in December 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a ground lease between the Postal Service, and the City and County of San Francisco, acting by and through its Airport Commission, for occupancy of approximately 8.61 acres of land at an initial annual rent of \$1,497,000 for the initial five -year term from September 1, 2017 through August 31, 2022.

The terms of the proposed lease are summarized in Table 1 below.

Table 1: Proposed Lease Provisions

	Proposed Lease Provisions
Lease term	September 1, 2017 through August 31, 2022
Options to extend	Four (4) five-year options to extend through August 31, 2042 at the Airport's sole discretion and subject to Postal Service's approval of funding
Rent on exercise of option	Fair market value of the land only
Base rent paid to City	\$1,497,000
Rent Increase	Three percent annually
Maintenance	Postal Service incurs all costs and expenses related to maintaining buildings, structures and improvements on the premise, including streets, roads, parking areas and sidewalks in compliance with laws and regulations
Utilities	At Postal Service's sole cost and expense

Ground Lease

In 2011, the Postal Service approached the Airport in order to enter into a new ground lease that would supersede the existing ground lease. At that time, the Airport commissioned an appraisal from David Tattersal and Co. for a facility lease, which determined the market value for annual rent to be \$5,020,000 per year.

According to Ms. Diane Artz, Senior Property Manager at the Airport, the Postal Service determined a facility lease was not feasible due to Federal budget constraints. Therefore, the Postal Service continued to occupy the location under the existing ground lease, which expired in 2017.

Prior to the expiration of the ground lease in 2017, the City's Real Estate Division hired Runde & Partners, Inc. to appraise the premises for a ground lease. In September 2016, the appraisal recommended the Airport charge an annual rent of \$1,497,000 for a ground lease. According to Ms. Artz, the Airport determined that due to previous discussions in 2011, that a facility lease was not a viable option for the Postal Service and therefore only offered a ground lease.

The Airport did not try to find a new tenant to enter into a facility lease at the site, although a facility lease would generate higher rent than a ground lease, due to the highly specialized facilities constructed by the Postal Service. According to Ms. Artz, the ground lease site in the West Field Cargo area is slated for redevelopment in approximately 2026, or approximately eight years. The Airport believed that finding a new tenant that would enter into a facility lease at Plot 10F in the West Field Cargo Area for eight years would be unlikely because occupying the site would likely require the tenant to make significant improvements which could not be amortized over an eight year period or less.

However, the proposed lease is for a term of up to 25 years, rather than eight years, if the options to extend the lease are exercised. As noted above, the proposed ground lease is for an initial five-year term from September 2017 through August 2022 with four five-year options to extend the lease at the Airport's sole discretion through August 2042, which is 16 years after the planned date for the redevelopment slated in 2026. According to Ms. Artz, the proposed ground lease is for a possible total term of 25 years rather than eight years because in the event the redevelopment plans change, the Postal Service can continue to occupy the site and the Airport will continue to receive rent from the Postal Service.

Airport Capital Plans

The Airport is currently studying the West Field Cargo Area as part of the Boarding Area H development, which is a new boarding area the Airport plans to add to the International Terminal by approximately 2026. According to Ms. Artz, as part of the project, the Airport plans to repurpose the existing building on the premise currently occupied by the Postal Service as a distribution center for the Airport's concessionaire tenants, contractors, and vendors. The distribution center is not mentioned in the Airport Development Plan but would be included pending the result of the study.

FISCAL IMPACT

The Postal Service will pay the Airport a total of \$7,947,756 of rent over five years, as seen in Table 2 below.

Table 2: Amount of Rent Paid by the Postal Service to the Airport from 2017 until 2022

Year	Amount
September 1, 2017 through August 31, 2018	\$1,497,000
September 1, 2018 through August 31, 2019	1,541,910
September 1, 2019 through August 31, 2020	1,588,167
September 1, 2020 through August 31, 2021	1,635,812
September 1, 2021 through August 31, 2022	1,684,867
Total	\$7,947,756

RECOMMENDATION

Approve the proposed resolution



Ground Lease

SAN FRANCISCO - ISC (056801-001)
660 W FIELD RD, SAN FRANCISCO, CA 94128-3161



Ground Lease

Facility Name/Location

SAN FRANCISCO - ISC (056801-001)
660 W FIELD RD, SAN FRANCISCO, CA 94128-3161

County: San Francisco

Lease: L17-0232

This Lease made and entered into by and between SEE THE LEASE ADDENDUM hereinafter called the Landlord, and the United States Postal Service, hereinafter called the Postal Service:

In consideration of the mutual promises set forth and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties covenant and agree as follows:

1. The Landlord hereby leases to the Postal Service and the Postal Service leases from the Landlord the following premises, hereinafter legally described in paragraph 7, in accordance with the terms and conditions described herein and contained in the 'General Conditions to USPS Ground Lease,' attached hereto and made a part hereof:

Total Site Area: 8.61 Acres, together with the existing Landlord owned building consisting of 223,500 SF, also known as Building 660, at Plot 10F.

Total Site Area: 8.61 Acres

2. RENTAL: The Postal Service will pay the Landlord an annual rent of: See Addendum.

Rent checks shall be payable to:

CITY & COUNTY OF SAN FRANCISCO
SAN FRANCISCO AIRPORT COMMISSION
PO BOX 59753

LOS ANGELES, CA 90073-9753

3. TO HAVE AND TO HOLD the said premises with their appurtenances for the following term:

FIXED TERM: The term becomes effective September 01, 2017 with an expiration date of August 31, 2022, for a total of 5 Years.

4. **RENEWAL OPTIONS:**

See the attached Addendum, Paragraph 11, Renewal Options.

5. **TERMINATION:**

None, except as specified elsewhere in this Lease.

6. **OTHER PROVISIONS:** The following additional provisions, modifications, riders, layouts, and/or forms were agreed upon prior to execution and made a part hereof:

See Attached Addendum.

7. **LEGAL DESCRIPTION:**

and Premises Drawing. See the attached Exhibit A and A-1.

Facility Name/Location

SAN FRANCISCO – ISC (056801-001)
660 FIELD RD, SAN FRANCISCO CA 94128-3161

County: San Francisco
Lease: L17-0232

2) RENTAL: The Postal Service will pay the Landlord an annual rental rate of:

\$1,497,000.00 beginning September 01, 2017 and ending August 31, 2018
\$1,541,910.00 beginning September 01, 2018 and ending August 31, 2019
\$1,588,167.30 beginning September 01, 2019 and ending August 31, 2020
\$1,635,812.32 beginning September 01, 2020 and ending August 31, 2021
\$1,684,866.69 beginning September 01, 2021 and ending August 31, 2022

Payable in equal installments at the end of each calendar month. Rent for a part of a month will be prorated.

8) INDEMNIFICATION CLAUSE

Postal Service hereby agrees to save harmless and indemnify the landlord from all claims, losses, damages, actions, causes of action, expenses, and/or liabilities resulting from the use of said property by Postal Service whenever such claim, loss, damage, action, cause of action, expense, and or/liability arises from the negligent or wrongful act or omission by an employee of Postal Service while acting within the scope of his or her employment, under circumstances where Postal Service, if a private person, would be liable in accordance with the law of the place where the negligent or wrongful act or omission occurred. Notwithstanding the above, Postal Service is under no obligation to save harmless and indemnify the landlord to the extent any negligent or wrongful act or omission by the landlords, its employees or agents in any way causes or contributes to the claim, loss damage, action, cause of action, expense and/or liability.

9) RECITALS

- A. This lease is made and entered into by and between the City and County of San Francisco, a municipal corporation, acting by and through its Airport Commission, hereinafter called Landlord, and the United States Postal Service, hereinafter called Postal Service.
- B. Landlord and Postal Service are parties to that certain Ground Lease LPUC24392, dated October 20, 1964, authorized by Public Utility Commission Resolution No. 24392, as amended by the First Amendment authorized by Airport Commission Resolution No. 98-0196, dated August 4, 1998, (as modified, the "**Original Lease**").
- C. The Original Lease premises is certain real property, located on Plot 10-F at the San Francisco International Airport (the "**Airport**") comprising 8.61 acres of land, as described in Exhibit A-1 to the First Amendment of Original Lease, dated May 3, 1998 (the "**Original Premises**").
- D. Postal Service's International Service Center ("**ISC**") air mail operation at the Airport is essential to the efficient and safe movement and processing of United States air mail.
 1. The majority of international and domestic air carriers operating at the Airport process their inbound mail at Plot 10-F, including federal inspection of all international mail by U.S. Customs and Border Protection.
 2. Postal Service also carries outbound mail.
 3. Approximately 70% of all air mail processed at Plot 10-F arrives and/or departs on aircraft operating at the Airport.

- E. Landlord and air carriers operating at the Airport desire a continuation of the ISC operation provided by Postal Service at the Original Premises.
- F. The fifty (50) year term of the Original Lease expired on August 31, 2017 and Postal Service wishes to enter into a new lease with Landlord to continue its ISC operation and operation of a public post office, subject to the terms and conditions set forth below, to be effective upon full approval by City and Postal Service.

10) PERMITTED USE

To operate Postal Service's ISC", for sorting of inbound international mail or dispatch of foreign-originating mail destined for delivery in the United States, for operation of a public post office, for the provision of mail boxes and P.O. Box units at the demised premises and at the Airport terminals, for collection of mail, and any other lawful purpose directly related to the forgoing activities (the "**Permitted Use**") and for no other purpose.

Postal Service acknowledges and agrees to: 1) operate a public post office on the demised premises, and 2) to deliver and collect mail at the demised premises and at Airport terminal buildings by provision of blue mail collection boxes, which collection boxes will remain as long as each respective collection box receives more than twenty-five (25) pieces of mail per box per day, and P.O. Box units located in the International Terminal situated at public locations to be approved at the sole discretion of the Airport.

11) RENEWAL OPTIONS AND RENT ADJUSTMENT FOR RENEWAL TERMS

- A. Renewal Options. The Lease may be renewed for four (4) renewal terms for additional five (5) years each, for the following separate and consecutive terms and at the following annual rental rates:

EFFECTIVE DATE	EXPIRATION DATE	PER ANNUM RENTAL
09/01/2022	08/31/2027	MARKET VALUE
09/01/2027	08/31/2032	MARKET VALUE
09/01/2032	08/31/2037	MARKET VALUE
09/01/2037	08/31/2042	MARKET VALUE

All other terms and conditions of this Lease will remain the same during any renewal term unless stated otherwise herein.

If Landlord desires to allow a renewal of the Lease, the process for renewing the Lease shall be as follows:

1. Landlord shall send written notice to Postal Service at least 730 days (2 years) before the end of the initial Lease term and each renewal term, setting forth: 1) its willingness to renew the Lease, and 2) Landlord's opinion of the appropriate market value rental of the leased premises based on an appraisal of the land value only. A copy of the appraiser's summary page/transmittal letter (hereinafter referred to as the "summary" shall be provided to Postal Service with the above notice.

This opinion shall be based on an appraisal procured by Landlord, at its sole cost, and performed by a "qualified appraiser". A "qualified appraiser" is defined as someone who is State certified or designated by a national professional appraisal society, which said national society is a sponsoring organization of the Appraisal Foundation

2. After receipt of the written notice, if Postal Service also desires to renew the Lease, it shall so send written notice to Landlord within 14 days of Landlord's notice to Postal Service per Section 11(A) above.

3. The parties shall thereafter determine the appropriate market value rent for each renewal term as follows:
- (i) Landlord and Postal Service shall attempt to agree, in writing, on the market value rent of the leased premises during the thirty (30) day period following delivery of Landlord's notice (the "initial negotiation period"). If the parties reach agreement on the market value rent figure, the agreed upon rent figure shall be the renewal term rent.
 - (ii) If the parties are unable to reach an agreement during the initial negotiation period, then Postal Service shall, at its sole cost and within ninety (90) days following expiration of the initial negotiation period, procure an appraisal by a "qualified appraiser." A copy of the appraisal summary shall be provided to Landlord within such ninety (90) day period.
 - (iii) If Postal Service fails to timely provide an appraisal summary as specified herein, the renewal term rent shall be the market value rent established by Landlord's appraisal.
 - (iv) If Postal Service's appraisal summary amount is within ten percent (10%) of Landlord's appraisal summary amount, then the renewal term rent shall be the arithmetic average of the two appraisal summaries.
 - (v) If the difference between the two appraisal summaries is greater than ten percent (10%), Landlord and Postal Service shall attempt to agree, in writing, on the market value rent during the thirty (30) day period following delivery of Postal Service's appraisal summary to Landlord (the "final negotiation period"). If the parties reach an agreement on the market value rent, the agreed upon rent figure shall be the renewal term rent. If the parties are unable to reach agreement during the final negotiation period, then Landlord shall provide Postal Service with a list of three qualified appraisers within ten (10) days after the final negotiation period. Within ten days following receipt of the list from Landlord, Postal Service shall select one appraiser from this list and notify Landlord of such selection, to perform an appraisal review. Should Landlord fail to timely provide a list, Postal Service shall select an appraiser to perform an appraisal review. Should Postal Service fail to timely select an appraiser from the list, Landlord shall select an appraiser from the list to perform an appraisal review.
- Within thirty (30) days following such selection, this appraiser shall review both full narrative appraisal reports and establish an appropriate annual market value rent for the renewal term (the "appraisal review period"), but in no event shall such value be less than the lower of the two original summary values reviewed, and forward copies of the completely appraisal review to both Postal Service and Landlord. The annual rental amount established in the appraisal review shall be binding on both parties for the renewal term of the Lease, subject to Postal Service's rights set forth in subparagraph E below.
4. Landlord and Postal Service shall share equally the cost of the appraisal review noted above, as follows. Postal Service shall contract for such appraisal review using its Standard Contract for Real Estate Services. Landlord shall reimburse Postal Service fifty percent (50%) of the cost of the appraisal review within sixty (60) days of presentation of the appraiser's invoice(s). If Landlord fails to pay this fifty percent (50%) share within said time period, Postal Service may deduct that amount from the rent upon notice to Landlord.
5. Once the final annual rental amount is established through the processes set forth above, Postal Service shall have reasonable time to diligently pursue and obtain internal funding approval for the renewal option based upon the annual rental rate.

In the event funds are not approved, Postal Service shall provide written notice to Landlord that it will decline proceeding with renewal of the lease.

Notwithstanding the foregoing, in the event Postal Service's written notice of acceptance or decline is not received by Landlord on or before six (6) months after the end date of the: 1) initial negotiation period, or 2) the final negotiation period, or 3) appraisal review period, whichever is applicable, Landlord may rescind its offer to extend the Lease term by written notice to Postal Service.

- B. Rent Adjustment for Renewal Terms. The annual rent for the first year of each renewal term (the "Renewal Term Annual Rent"), shall be established as provided in Paragraph 11.A above.

Thereafter, the Renewal Term Annual Rent shall be adjusted annually, effective every September 1 during the remaining four lease years of the respective renewal term, using the following "Consumer Price Index": that index published by the United States Department of Labor, Bureau of Labor Statistics known as "All Urban Consumers – Not Seasonally Adjusted - All Items for the San Francisco-Oakland-San Jose Area, CA (1982-84 = 100)." The link to that Index is www.bls.gov/cpi/

In the event such index is discontinued, then the applicable Consumer Price Index shall mean an index chosen by the Airport Director which is, in the Airport Director's reasonable judgment, comparable to the index specified above.

The "Comparison Index" means the Consumer Price Index published in the month of July immediately prior to the commencement of each lease year within a renewal term.

The "Base Index" means the Consumer Price Index published in the month of July immediately prior to the commencement of each renewal term, as applicable.

Annual adjustments to the Renewal Term Annual Rent shall be as follows:

If the Comparison Index exceeds the Base Index above, then the annual rent for the upcoming lease year shall be increased to equal the following amount:

$$\text{Renewal Term Annual Rent} \times \frac{\text{Comparison Index}}{\text{Base Index}}$$

If the Comparison Index does not exceed the Base Index, then the annual rent for the upcoming lease year shall remain the same. In no event shall the Renewal Term Annual Rent be decreased.

6. ALTERATIONS AND SURRENDER.

Postal Service Lease General Conditions, Paragraph 7, Alterations, is deleted in its entirety and replaced with the following:

- A. Postal Service shall have the right, with prior written consent of Landlord, which shall not be unreasonably withheld, to make alterations, attach fixtures, and erect additions, structures in or upon the premises hereby leased, conditioned upon such alterations being performed in a workmanlike manner, and in compliance with all applicable laws, the Airport's Building Inspection and Code Enforcement requirements, and the Airport's Tenant Improvement Guide. Without limiting the generality of the foregoing, all exterior alterations may require the approval of the Airport's Design Review Committee.
- B. Postal Service shall, upon expiration or earlier termination of this Lease, surrender to Landlord the demised premises and all alterations, additions and improvements thereto in the same condition as when received, ordinary wear and tear and damage by fire, earthquake, act of God, or the elements excepted. Prior to the expiration or earlier termination of this Lease, Postal Service may remove the specialty equipment or trade fixtures provided, however, that any damage to the demised premises caused by such removal will be repaired at Postal Service's cost. Notwithstanding the foregoing,

Landlord reserves the right to require that Postal Service remove certain specialty equipment or trade fixtures at Postal Service's expense, including but not limited to the air mail conveyor system(s) and air mail scanning equipment.

In the event that Postal Service shall fail to remove its personal property, including specialty equipment and trade fixtures, on or before the expiration date or earlier termination date of the Lease, such property shall become Landlord's property free and clear of all claims to or against them by Postal Service or any third person. In such event, Landlord shall not be responsible for any losses related to such property, and Landlord may sell or otherwise dispose of such property.

7. SIGNAGE

Postal Service shall have the right to install and operate on the demised premises, at its own cost and expense, signs indicating its operation and business, provided, that no sign shall be erected or maintained or removed without the prior written approval or consent of Landlord, not to be unreasonably withheld. Such signs may require the approval of the Airport's Design Review Committee. Postal Service shall install, relocate or remove any signs at its own cost and expense as is reasonably requested, in writing, by Landlord. Postal Service's existing signage installed under the prior Ground Lease is hereby approved.

8. TITLE TO BUILDINGS AND IMPROVEMENTS

Title to all permanent buildings, structures and improvements previously constructed or placed upon the demised premises vested in Landlord as of the tenth (10th) anniversary of the commencement of said Original Lease, except that all machinery, tools, devises, appliances, furniture, furnishings, supplies and equipment of every kind and nature placed or installed by Postal Service in or upon the demised premises ("specialty equipment"), were deemed to be and remain the property of Postal Service, notwithstanding that the same may have been attached, affixed, or annexed to the land or the floors, ceilings or other parts of any buildings or structures on the demised premises

As to permanent buildings, structures and improvements constructed or placed upon the demised premises during the term of this Lease, title to the same shall vest in Landlord upon expiration or earlier termination of this Lease.

9. COMMON USE FACILITIES

Subject to the rules and regulations promulgated for said Airport now or hereafter in effect, Postal Service shall have the right of access to and use of facilities at the Airport designated for common use and necessary and convenient for post office operations and activities.

10. INGRESS AND EGRESS

Postal Service shall have and enjoy full rights of ingress to and egress from the demised premises for all use thereof as are specified in this Lease, subject only to such reasonable rules and regulations as may be established by the Airport respecting such use, guests, patrons, suppliers and contractors and their agents, and shall include the right of transporting mail, equipment, material, cargo, machinery and other property.

11. ORDER, REPAIR, AND CONDITION

- A. "As Is" Condition. THE PARTIES ACKNOWLEDGE AND AGREE THAT POSTAL SERVICE HAS USED, OCCUPIED AND CONTROLLED THE PREMISES CONTINUOUSLY SINCE OCTOBER 20, 1964. POSTAL SERVICE SPECIFICALLY ACKNOWLEDGES AND AGREES THAT LANDLORD IS LEASING THE PREMISES TO POSTAL SERVICE ON AN "AS IS WITH ALL FAULTS" BASIS AND THAT POSTAL SERVICE IS NOT RELYING ON ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, FROM LANDLORD OR ITS AGENTS, AS TO ANY MATTERS CONCERNING THE PREMISES, INCLUDING: (i) the quality, nature, adequacy and

physical condition and aspects of the Premises including landscaping, (ii) the quality, nature, adequacy, and physical condition of soils, geology and any groundwater, (iii) the existence, quality, nature, adequacy and physical condition of utilities serving the Premises, (iv) the development potential of the Premises, and the Premises use, habitability, merchantability, or fitness, suitability, value or adequacy of the Premises for any particular purpose, (v) the zoning or other legal status of the Premises or any other public or private restrictions on use of the Premises, (vi) the compliance of the Premises or its operation with any applicable codes, laws, regulations, statutes, ordinances, covenants, conditions and restrictions of any governmental or quasi-governmental entity or of any other person or entity, (vii) the presence of Hazardous Materials on, under or about the Premises or the adjoining or neighboring property, as defined in Paragraph 34 (viii) the quality of any labor and materials used in any improvements on the real property, (ix) the condition of title to the Premises, and (x) any agreements affecting the Premises.

- B. Repairs. Postal Service agrees to, at its own cost and expense, keep and maintain in good order and repair: 1) the exteriors and interiors of the buildings, building systems, infrastructure, and improvements erected upon the demised premises, and 2) the streets, roads, parking areas, curbs, and sidewalks erected under the demised premises, including, but not limited to the substructure, utility systems, sanitary waste systems, storm drain systems, sump pumps, and underground vaults, in good working order, appearance, condition and repair, and in compliance with all applicable laws and regulations and governmental requirements pertaining thereto, including the Airport's Tenant Improvement Guide and the Airport's Building Inspection and Code and Enforcement requirements, and to do all such work as may be required to make the buildings and improvements comply with the purposes for which they may be used, and also to keep the sidewalks, and excavations thereunder if any, in safe condition, and to perform the obligations imposed by any applicable law, ordinance or regulation related to such infrastructure and improvements.

12.INSURANCE

Landlord acknowledges that Postal Service does not routinely purchase commercial insurance or maintain a separate account for potential claims, as is required to technically be considered "self-insured." Rather, Postal Service is authorized to pay proper claims against it out of its general revenue fund and available credit, and is subject to suit for damages. Liability claims against Postal Service are governed by the Federal Tort Claims Act, 39 U.S.C. §409(c), with the specific provisions being set forth at 28 U.S.C. §§1346(b), 2401(b), and 2671-2680. With respect to the issue of Workers' Compensation coverage, pursuant to 39 U.S.C. §1005(c), the Federal Employees' Compensation Act ("FECA"), 5 U.S.C. §§8101 et seq., is the exclusive remedy for all postal employees who sustain personal injuries on the job. While Landlord is hereby waiving its standard insurance requirements for Postal Service, if at any time Postal Service assigns or subleases any portion of the demised premises in accordance with the terms of this Lease to a non-governmental entity, Landlord may impose its standard insurance requirements on the assignee and/or subtenant.

13.INSPECTION OF PREMISES

Landlord may enter upon the demised premises at any reasonable time for any purpose necessary, by requesting access 24 hours in advance, incidental to or connected with the performance of Postal Service's obligations and purposes hereunder, including but not limited to, entry for the purpose of conducting an inspection of Postal Service's operations to confirm that such operations comply with the requirements set forth herein, or in the exercise of Landlord's governmental or proprietary functions. Landlord shall be provided with a Postal Service contact person and phone number to request access. Landlord shall use reasonable efforts to minimize interference with Postal Service's business operations in the premises.

Notwithstanding the foregoing, Landlord may access the premises without 24 hours' notice when emergency access is required after-hours, by calling the Postal Inspection Service at 1-877-876-2455, Option 2 "Emergency" prior to entry.

14. TAXES, LICENSES, AND CHARGES

Postal Service agrees to pay and discharge all applicable taxes and assessments which, during the term of this Lease or any extensions or renewals thereof, may be levied or imposed by the state, or any county or city or other political entity having the power to tax, upon the interest in the improvements constructed or to be constructed upon the demised premises. Except that all applicable taxes are to be paid before they become delinquent, Postal Service reserves the right to contest the legality or amount of any tax paid pursuant to this paragraph. Nothing herein is intended to be construed as a waiver of Postal Services' sovereign immunity.

15. COMPLIANCE WITH LAWS

The occupancy and use by Postal Service of the demised premises and their respective operations in and about the Airport, and the rights herein conferred upon them shall be subject to and in compliance with all applicable federal, state and local laws, regulations and rules, including such reasonable rules and regulations not inconsistent with the provisions of this Lease as are now or may hereafter be established by Landlord.

16. SECTION READINGS

The section headings contained herein are for convenience in reference and are not intended to define or limit the scope of any provisions of this Lease.

17. MODIFICATION RESERVATION

The parties hereto reserve the right to modify the Lease and any of its terms, agreements or covenants in the event that unforeseen events or other necessary conditions so require, and any such modification shall be in writing and signed by both parties and subject to those approvals necessary for such modification.

18. FEDERAL GRANT AGREEMENT COVENANTS

Postal Service acknowledges that Landlord is subject to Federal Grant Agreement obligations as a condition precedent to granting of funds for improvement of the Airport, and, accordingly, agrees to be bound by the following covenants provided by the FAA, as they may apply to Postal Service. Without limiting the foregoing, Postal Service understands and acknowledges that Landlord has given to the United States of America, acting by and through the Federal Aviation Administration, certain assurances with respect to nondiscrimination, which have been required by Title VI of the Civil Rights Act of 1964, as effectuated by Title 49 of the Code of Federal Regulations, Subtitle A Office of the Secretary of Transportation, Part 21, as amended, as a condition precedent to the government making grants in aid to Landlord for certain Airport programs and activities, and that Landlord is required under said Regulations to include in every agreement pursuant to which any person or persons other than Landlord, operates or has the right to operate any facility on the Airport providing services to the public, the following covenant, to which Postal Service agrees as follows: "Postal Service in its operation at and use of San Francisco International Airport, covenants that (1) no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of said facilities; (2) that in the construction of any improvements on, over, or under such land and the furnishing of services thereon, no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination; and (3) that Postal Service shall comply with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Subtitle A, Office of the Secretary of Transportation, Part 21, Nondiscrimination in Federally Assisted Programs of the Department of Transportation Effectuations of Title VI of the Civil Rights Act of 1964, and as said regulations may be amended."

19. HOLDING OVER

If Postal Service remains in possession of the Premises or any part thereof after the expiration of the term, with the written consent of Landlord, such occupancy shall be on all the terms of this Lease with the exception that Postal Service

shall become a tenant from month to month. Postal Service will continue to pay either the last rental rate in effect prior to the expiration or termination of the Lease or the fair market value (as determined by Postal Service in its sole, but reasonable, discretion) of the leasehold, whichever is higher. If the parties agree to and execute a new lease or a lease extension, the rent paid during the holdover period will be adjusted to reflect the rate negotiated by the parties for the new lease or lease extension, and the difference, if any, will be paid to Landlord along with the new rent for the new lease or lease extension, or credited to Postal Service, if applicable. No such hold over shall be deemed to operate as a renewal or extension of the Term. Landlord or Postal Service may terminate the Lease during the holdover period upon 60 days' prior written notice to the other.

20. UTILITIES

- A. Utility Costs. Postal Service shall pay for all recurring utility bills, which may include, electrical, heat, water, and sewer, during the term of the Lease, provided a separate meter or separate invoice is furnished by the appropriate authority. Postal Service agrees to furnish and pay for all trash removal for the demised premises during the term of the Lease.
- B. Waiver of Damages. Postal Service expressly waives any and all claims for damages arising or resulting from failures or interruptions of utility services to the premises, including electricity, water, sewage, telephone, communications, or for the failure or interruption of any public conveniences. Without limiting the generality of the foregoing, Postal Service shall have no rights to terminate this Lease in the event of any interruption or failure of utility services.

Notwithstanding the foregoing, in the event of a continuous disruption of electricity or water/sewer service, for a period exceeding one (1) month, and such disruption causes Postal Service's operations to cease in their entirety, Postal Service may submit to Landlord a request to abate the rent, which request may be approved or denied at Landlord's sole discretion. The terms of such abatement will be negotiated at that time, depending on the circumstances of the service disruption.

21. NOTICES

Any notice given under this Lease shall be effective only if in writing and given by sending it first-class mail or certified mail with a return receipt requested or by overnight courier, return receipt requested, with postage prepaid, to: (a) Postal Service at Postal Services' address set forth below; or (b) Landlord at Landlord's address set forth below, or (c) to such other address as either Landlord or Postal Service may designate as its new address for such purpose by notice given to the other in accordance with provisions of this Section at least ten (10) days prior to the effective date of such change. Any notice hereunder shall be deemed to have been given upon the date deliver is made or attempted delivery is refused. For convenience of the parties, copies of notices may also be sent electronically to the telephone numbers set forth below, or such other number or email address as may be provided from time to time; however, neither party may give official or binding notice electronically.

Notices shall be sent to the following:

Postal Service
Contracting Officer
1300 Evans Avenue, Suite 200
San Francisco CA 94188-8200

Landlord
San Francisco International Airport
International Terminal, 5th Floor
P.O. Box 8097
San Francisco, CA 94128
Attn: Airport Director

22. ANTENNAE AND TELECOMMUNICATIONS DISHES

No antennae, telecommunications dish, wireless telecommunications system, or other similar facilities may be installed on the Premises without the prior written approval of Director, which approval shall not be unreasonably withheld. No such antennae shall interfere with Landlord's emergency and non-emergency communications facilities or the transmission facilities of Landlord.

23. SECURITY DEPOSIT

Requirement is waived due to the Federal status of Postal Service.

24. DAMAGE OR DESTRUCTION

- A. Partial Destruction of the Premises. In the event the improvements on the Premises are damaged by any casualty, then Postal Service shall repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. In the event Postal Service is unable or unwilling to repair such improvements damaged by any casualty, then Landlord may, at Landlord's option, either (i) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Postal Service within sixty (60) days after the date of occurrence of such damage of Landlord's intention to terminate this Lease. Such termination shall be effective as of the date specified in such notice. Notwithstanding the foregoing, if such damage is caused by an act or omission to act of Postal Service, then Postal Service shall repair such damage, promptly at its sole cost and expense. In the event Landlord elects to terminate this Lease pursuant to this Paragraph 30.A, Postal Service shall have the right within ten (10) days after receipt of the required notice to notify Landlord of Postal Service's intention to repair such damage at Postal Service's expense, without reimbursement from Landlord, in which event this Lease shall continue in full force and effect and Postal Service shall proceed to make such repairs as soon as reasonably possible. If Postal Service does not give such notice within the ten (10) day period, this Lease shall be terminated as of the date specified in Landlord's notice. Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any restoration or replacement of any office fixtures, partitions, railings, ceilings, floor covering, equipment, machinery or fixtures or any other improvements or property installed in the Premises by Postal Service or at the direct or indirect expense of Postal Service. Postal Service shall be required to restore or replace same in the event of damage, unless Postal Service elects to terminate the Lease as provided herein.

If fifty percent (50%) or more of the Premises shall be damaged or destroyed, each of Landlord and Postal Service may elect to terminate this Lease by giving notice to the other within ninety (90) days from the date of occurrence of such damage or destruction, in which event the Term of this Lease shall expire on a mutually agreed upon date and Postal Service shall thereupon surrender the Premises to Landlord as required hereunder.

- B. Total Destruction of Premises. If the improvements on the Premises are totally destroyed during the Term from any cause (including any destruction required by any authorized public authority), this Lease shall automatically terminate as of the date of such total destruction.
- C. Damage Near End of the Term. If during the last year of the Term the improvements on the Premises are partially destroyed or damaged by a casualty, Landlord may at Landlord's option terminate this Lease as of the date of occurrence of such damage by giving written notice to Postal Service of Landlord's election to do so within thirty (30) days after the date of occurrence of such damage. In the event Landlord elects to terminate this Lease pursuant hereto, Postal Service shall have the right within ten (10) days after receipt of the required notice to notify Landlord, in writing, of Postal Service's intention to repair such damage at Postal Service's expense, without reimbursement from Landlord, in which event this Lease shall continue in full force and effect and Postal Service shall proceed to make such repairs as soon as reasonably possible. If Postal Service does not give such notice within the ten (10) day period, this Lease shall be terminated as of the date specified in Landlord's notice.

- D. No Abatement of Rent; Postal Service's Remedies. If the Premises are partially destroyed or damaged by casualty, Postal Service shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration. Postal Service waives California Civil Code Sections 1932(2) and 1933(4) providing for termination of hiring upon destruction of the thing hired. In no event will Postal Service be entitled to an abatement of rent resulting from any damage, destruction, repair, or restoration described herein.

Notwithstanding the foregoing, in the event Premises is partially destroyed or damaged by casualty, and such disruption causes Postal Service's operations to cease in their entirety, Postal Service may submit to Landlord a request to abate the rent, which request may be approved or denied at Landlord's sole discretion.

25. ASSIGNMENT OR SUBLETTING

Postal Service General Conditions, Paragraph 6, Sublease is deleted in its entirety and replaced with the following:

Postal Service shall not assign, sublet, encumber, or otherwise transfer, whether voluntary or involuntary or by operation of law, the Premises or any part thereof, or any interest herein.

26. ENVIRONMENTAL CLAUSE

Postal Service General Conditions, Paragraph 9, Hazardous / Toxic Conditions Clause. is deleted in its entirety and replaced with the following:

Postal Service shall not cause any Hazardous Material to be brought upon, kept, used, stored, generated or disposed of in, on or about the Airport, or transported to or from the Airport, except in accordance with applicable law. Postal Service shall indemnify, defend, and hold harmless City from and against any and all losses, liabilities, judgments, suits, claims, damages, costs and expenses arising during or after the term of this Lease as a result of or arising from: (a) a breach by Postal Service of its obligations contained in this Paragraph, or (b) any Release of Hazardous Material from, in, on or about the Airport caused by the act or omission of Postal Service, or any agent, contractor, or licensee of Postal Service on or after October 20, 1964; provided, however, Postal Service's obligations under this sentence shall not extend to any Release of Hazardous Material to the extent caused by City or a third party who is not an agent, contractor, or licensee of Postal Service, unless and to the extent exacerbated by Postal Service or its agent, contractors, and licensees. Upon reasonable notice, City shall have the right but not the obligation to conduct or cause to be conducted by a firm acceptable to City, an environmental audit or any other appropriate investigation of Postal Service's operations for possible environmental contamination issues. Postal Service shall pay all costs associated with said investigation in the event such investigation shall disclose any Hazardous Materials contamination as to which Postal Service is liable hereunder. Postal Service shall promptly give City written notice of any Release of Hazardous Material from, in, on or about the Airport caused by Postal Service or its agents, contractors, or licensees. City shall promptly give Postal Service written notice of any Release of Hazardous Material from, in, on, or about the demised premises caused by City.

Not less than one (1) year prior to the expiration of this Lease, Postal Service shall, at its sole cost and expense, conduct and deliver to City a Phase II environmental site assessment of the demised premises and the buildings and improvements located thereon, in form and content reasonably acceptable to City using a firm licensed by the State of California and approved by City, which approval shall not unreasonably be withheld, which assessment shall identify the presence of any Hazardous Materials in, on, or under the demised premises, including the presence of any asbestos or other Hazardous Materials in the buildings and improvements located thereon. Postal Service shall, prior to its surrender of the demised premises, at its sole cost and expense, carry out all measures that are reasonably necessary to remediate any Hazardous Materials condition identified in such report, unless and to the extent Postal Service can demonstrate to the satisfaction of City that neither Postal Service, nor its agents, contractors, or licensees caused or exacerbated any such Hazardous Materials condition.

As used in this Lease, the following terms shall have the meanings set forth below: (a) "Environmental Laws" shall mean any federal, state, local or administrative law, rule, regulation, order or requirement relating to industrial hygiene, environmental conditions or Hazardous Materials, whether now in effect or hereafter adopted. (b) "Hazardous Materials" shall mean any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the environment. "Hazardous Material" includes, without limitation, any material or substance defined as a "hazardous substance," or "pollutant" or "contaminant" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, also commonly known as the "Superfund" law, as amended (42 U.S.C. Section 9601, et seq.) ("CERCLA"), or pursuant to Section 25316 of the California Health & Safety Code; any "hazardous waste" listed pursuant to Section 25140 of the California Health & Safety Code; any asbestos and asbestos containing materials; petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids; and any materials listed in the Airport's Tenant Improvement Guide. (c) "Release" when used with respect to Hazardous Material shall include any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or on any property or the environment.

27. LANDLORD AND AIRPORT REQUIREMENTS

A. No Advertising. Postal Service shall have no right to conduct any advertising or promotional activities at the premises or the Airport.

B. Sunshine Ordinance. In accordance with Section 67.24(e) of the San Francisco Administrative Code, contracts, contractors' bids, leases, agreements, responses to Requests for Solicitations, and all other records of communications between Landlord and persons or firms seeking contracts will be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract, lease, agreement or other benefit until and unless that person or organization is awarded the contract, lease, agreement or benefit. Information provided which is covered by this Section will be made available to the public upon request.

C. Notification of Limitations on Contributions. Postal Service acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City of San Francisco for the leasing of any building from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to the officer at any time from the commencement of negotiations for such contract until the termination of negotiations for such contract or three (3) months has elapsed from the date the contract is approved by the City elective officer, or the board on which that City elective officer serves.

D. Drug-Free Workplace Policy. Postal Service acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance is prohibited on City premises. Postal Service agrees that any violation of this prohibition by Postal Service, its employees, shall be deemed a material breach of this Lease.

E. Airport Intellectual Property. Pursuant to Resolution No. 01-0118, adopted by the Airport Commission on April 18, 2001, the Airport Commission affirmed that it will not tolerate the unauthorized use of its intellectual property, including the SFO logo, CADD designs, and copyrighted publications. All proposers, bidders, contractors, tenants, permittees, and others doing business with or at the Airport (including subcontractors and subtenants) may not use the Airport intellectual property, or any intellectual property confusingly similar to the Airport intellectual property, without the Airport Director's prior consent.

F. Governing Law. This Lease shall be deemed to have been made in, and be construed in accordance with the Federal law, and if non relevant to the dispute, then California law shall control, but nothing herein shall be construed as a waiver of Postal Services' sovereign immunity.

G. Landlord's Right to Perform. All agreements and provisions to be performed by Postal Service under any of the terms of this Lease shall be at its sole cost and expense and without any abatement of Rent. If Postal Service shall fail to make any payment or perform any act on its part to be performed hereunder and such failure shall continue for ten (10) days after notice thereof by Landlord, Landlord may, but shall not be obligated to do so, and without waiving or releasing Postal Service from any obligations of Postal Service, make any such payment or perform any such other act on Postal Service's part to be made or performed as provided in this Lease. All sums so paid by Landlord and all necessary incidental costs shall be deemed additional rent hereunder and shall be payable to Landlord on demand, and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of the nonpayment thereof by Postal Service as in the case of default by Postal Service in the payment of rent.

H. Pesticide Prohibition.

- a. Postal Service shall comply with the provisions of Section 308 of Chapter 3 of the San Francisco Environment Code (the "Pesticide Ordinance") which (i) prohibit the use of certain pesticides on City property, (ii) require the posting of certain notices and the maintenance of certain records regarding pesticide usage, and (iii) require Postal Service to submit to the Airport an integrated pest management ("IPM") plan that (a) lists, to the extent reasonably possible, the types and estimated quantities of pesticides that Postal Service may need to apply to the premises during the terms of this Lease, (b) describes the steps Postal Service will take to meet the City's IPM Policy described in Section 300 of the Pesticide Ordinance, and (c) identifies, by name, title, address, and telephone number, an individual to act as Postal Service's primary IPM contact person with the City. In addition, Postal shall comply with the requirements of Sections 303(a) and 303(b) of the Pesticide Ordinance.
- b. Nothing herein shall prevent Postal Service, through the Director, from seeking a determination from the Commission on the Environment that it is exempt from complying with certain portions of the Pesticide Ordinance as provided in Section 307 thereof.

28. Postal Service Lease General Conditions, Paragraph 5, Applicable Codes and Ordinances, is deleted in its entirety.

29. Postal Service Lease General Conditions, Paragraph 10, Facilities Nondiscrimination, is deleted in its entirety and replace with the following:

- A. By executing this Lease, Landlord certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit the employees to perform services at any location under its control where segregated facilities are maintained.
- B. Landlord will insert the applicable non-discrimination clauses in all subcontracts or purchase orders under this Lease unless exempt by Secretary of Labor rules, regulations, or orders issued under Executive Order 11246.

30. Postal Service Lease General Conditions, Paragraph 11, Clauses Required to Implement Policies, Statutes, or Executive Orders, is deleted in its entirety and replaced with the following:

The flowing clauses are incorporated in this Lease by reference. The text of incorporated terms may be found in Postal Service's Supplying Principles and Practices, accessible at <http://about.usps.com/manuals/spp/html/spp10.htm> or by searching www.usps.com.

Clause 1-1, Privacy Protection (October 2014)
Clause 1-5, Gratuities or Gifts (March 2006)
Clause 1-6, Contingent Fees (March 2006)

Clause 4-2, Contract Terms and Conditions Required to Implement Policies, Statutes or Executive Orders (July 2014)

Clause 9-3, Davis-Bacon Act (March 2006) – 1

Clause 9-7, Equal Employment (March 2008) - 2

Clause 9-13, Affirmative Action for Handicapped Workers (February 2010) - 3

Clause 9-14, Affirmative Action for Disabled Veterans of the Vietnam Era (March 2006) - 4

Clause B-25, Advertising of Contract Awards (February 2013)

Note: for purposes of apply the above standard clauses to this Lease, the terms "supplier", "contractor", and "lessor" are synonymous with "Landlord," and the term "contract" is synonymous with "Lease".

1 – For premises with net interior space in excess of 6,500 SF and involving construction work over \$2,000.

2 – For leases aggregating payments of \$10,000 or more.

3 – For leases aggregating payments of \$10,000 or more.

4 – For leases aggregating payments of \$25,000 or more.

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Part II – General Conditions

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10. Facilities Nondiscrimination – Intentionally Deleted – see Addendum, Paragraph 24
11. Clauses required to Implement Policies, Statutes, or Executive Orders – Intentionally Deleted – see Addendum Paragraph 36



Ground Lease

EXECUTED BY LANDLORD this _____ day of _____.

GOVERNMENTAL ENTITY

By executing this Lease, Landlord certifies that Landlord is not a USPS employee or contract employee (or an immediate family member of either), or a business organization substantially owned or controlled by a USPS employee or contract employee (or an immediate family member of either).

Name of Governmental Entity: City and County of San Francisco, a municipal corporation, acting by and through its Airport Commission

Name & Title: Ivar C. Satero ✓
Airport Director

Name & Title: _____

Name & Title: _____

Name & Title: _____

Landlord's Address: SAN FRANCISCO AIRPORT COMMISSION P O BOX 8097
SAN FRANCISCO, CA 94128-8097

Landlord's Telephone Number(s): (650) 821 - 4528

Federal Tax Identification No.: XX-XXX0417

APPROVED AS TO FORM:

DENNIS J. HERRERA

City Attorney

Witness

Witness

By: [Signature]

Deputy City Attorney

- a. Where the Landlord is a governmental entity or other municipal entity, the Lease must be accompanied by documentary evidence affirming the authority of the signatory(ies) to execute the Lease to bind the governmental entity or municipal entity for which he (or they) purports to act.
- b. Any notice to Landlord provided under this Lease or under any law or regulation must be in writing and submitted to Landlord at the address specified above, or at an address that Landlord has otherwise appropriately directed in writing. Any notice to the Postal Service provided under this Lease or under any law or regulation must be in writing and submitted to "Contracting Officer, U.S. Postal Service" at the address specified below, or at an address that the Postal Service has otherwise directed in writing.

ACCEPTANCE BY THE POSTAL SERVICE

Date: 11-20-17

Diana K Alvarado

Contracting Officer

[Signature]
Signature of Contracting Officer

Pacific FSO 1300 EVANS AVENUE, SAN FRANCISCO, CA 94188-8200
Address of Contracting Officer



General Conditions to USPS Ground Lease

1. CHOICE OF LAW

This Lease shall be governed by federal law.

2. RECORDING

Not Required

3. MORTGAGEE'S AGREEMENT ~~DELETED~~

~~If there is now or will be a mortgage on the property which is or will be recorded prior to the recording of the Lease, the Landlord must notify the contracting officer of the facts concerning such mortgage and, unless in his sole discretion the contracting officer waives the requirement, the Landlord must furnish a Mortgagee's Agreement, which will consent to this Lease and shall provide that, in the event of foreclosure, mortgages, successors, and assigns shall cause such foreclosures to be subject to the Lease.~~

4. ASSIGNMENTS

a. The terms and provisions of this Lease and the conditions herein are binding on the Landlord and the Postal Service, and all heirs, executors, administrators, successors, and assigns.

b. If this contract provides for payments aggregating \$10,000 or more, claims for monies due or to become due from the Postal Service under it may be assigned to a bank, trust company, or other financing institution, including any federal lending agency, and may thereafter be further assigned and reassigned to any such institution. Any assignment or reassignment must cover all amounts payable and must not be made to more than one party, except that assignment or reassignment may be made to one party as agent or trustee for two or more parties participating in financing this contract. No assignment or reassignment will be recognized as valid and binding upon the Postal Service unless a written notice of the assignment or reassignment, together with a true copy of the instrument of assignment, is filed with:

1. the contracting officer; and
2. the surety or sureties upon any bond.

c. Assignment of this contract or any interest in this contract other than in accordance with the provisions of this clause will be grounds for termination of the contract for default at the option of the Postal Service.

d. Nothing contained herein shall be construed so as to prohibit transfer of ownership of the demised premises, provided that:

1. such transfer is subject to this Lease agreement;
2. both the original Landlord and the successor Landlord execute the standard *Certificate of Transfer of Title to Leased Property and Lease Assignment and Assumption* form to be provided by the USPS Contracting Officer.

5. APPLICABLE CODES AND ORDINANCES ~~DELETED~~

~~The Landlord, as part of the rental consideration, agrees to comply with all codes and ordinances applicable to the ownership and operation of the parcel on which the premises are situated and to obtain all necessary permits and related items at no cost to the Postal Service. When the Postal Service or one of its contractors (other than the Landlord) is performing work at the premises, the Postal Service will be responsible for obtaining all necessary and applicable permits, related items, and associated costs.~~

6. SUBLEASE ~~DELETED~~ - see Addendum, Paragraph 31

~~The Postal Service may sublet all or any part of the premises or assign this lease but shall not be relieved from any obligation under this lease by reason of any subletting or assignment.~~

7. ALTERATIONS ~~DELETED~~ - see Addendum, Paragraph 12

~~The Postal Service shall have the right to make alterations, attach fixtures and erect additions, structures or signs in or upon the premises hereby leased (provided such alterations, additions, structures, or signs shall not be detrimental to or inconsistent with the rights granted to other tenants on the property on which said premises are located); which fixtures, additions or structures so placed in, upon or attached to the said premises shall be and remain the property of the Postal Service and may be removed or otherwise disposed of by the Postal Service.~~

8. CLAIMS AND DISPUTES

a. This contract is subject to the Contract Disputes Act of 1978 (41 U.S.C. 601-613) ("the Act").

b. Except as provided in the Act, all disputes arising under or relating to this contract must be resolved under this clause.

c. "Claim," as used in this clause, means a written demand or written assertion by one of the contracting parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of contract terms, or other relief arising under or relating to this contract. However, a written demand or written assertion by the Landlord seeking the payment of money exceeding \$100,000 is not a claim under the Act until certified as required by subparagraph d below. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a



General Conditions to USPS Ground Lease

claim under the Act. The submission may be converted to a claim under the Act by complying with the submission and certification requirements of this clause, if it is disputed either as to liability or amount or is not acted upon in a reasonable time.

d. A claim by the Landlord must be made in writing and submitted to the contracting officer for a written decision. A claim by the Postal Service against the Landlord is subject to a written decision by the contracting officer. For Landlord claims exceeding \$100,000, the Landlord must submit with the claim the following certification:

"I certify that the claim is made in good faith, that the supporting data are accurate and complete to the best of my knowledge and belief, that the amount requested accurately reflects the contract adjustment for which the Landlord believes the Postal Service is liable, and that I am duly authorized to certify the claim on behalf of the Landlord."

The certification may be executed by any person duly authorized to bind the Landlord with respect to the claim.

e. For Landlord claims of \$100,000 or less, the contracting officer must, if requested in writing by the Landlord, render a decision within 60 days of the request. For Landlord-certified claims over \$100,000, the contracting officer must, within 60 days, decide the claim or notify the Landlord of the date by which the decision will be made.

f. The contracting officer's decision is final unless the Landlord appeals or files a suit as provided in the Act.

g. When a claim is submitted by or against a Landlord, the parties by mutual consent may agree to use an alternative dispute resolution (ADR) process to assist in resolving the claim. A certification as described in subparagraph d of this clause must be provided for any claim, regardless of dollar amount, before ADR is used.

h. The Postal Service will pay interest on the amount found due and unpaid from:

1. the date the contracting officer receives the claim (properly certified if required); or
2. the date payment otherwise would be due, if that date is later, until the date of payment.

i. Simple interest on claims will be paid at a rate determined in accordance with the Act.

j. The Landlord must proceed diligently with performance of this contract, pending final resolution of any request for relief, claim, appeal, or action arising under the contract, and comply with any decision of the contracting officer.

9. HAZARDOUS/TOXIC CONDITIONS CLAUSE DELETED - see Addendum, Paragraph 32

~~"Asbestos-containing building material" (ACBM) means any material containing more than 1% asbestos as determined by using the method specified in 40 CFR Part 763, Subpart E, Appendix E. "Friable asbestos material" means any ACBM that when dry, can be crumbled, pulverized, or reduced to powder by hand pressure.~~

~~The Landlord must identify and disclose the presence, location and quantity of all ACBM or presumed asbestos-containing material (PACM) which includes all thermal system insulation, sprayed on and troweled on surfacing materials, and asphalt and vinyl flooring material unless such material has been tested and identified as non-ACBM. The Landlord agrees to disclose any information concerning the presence of lead based paint, radon above 4 pCi/L, and lead piping or solder in drinking water systems in the building, to the Postal Service.~~

~~Sites cannot have any contaminated soil or water above applicable federal, state or local action levels or undiscovered underground storage tanks. Unless due to the act or negligence of the Postal Service, if contaminated soil, water, underground storage tanks or piping or friable asbestos material or any other hazardous/toxic materials or substances as defined by applicable Local, State or Federal law are subsequently identified on the premises, the Landlord agrees to remove such materials or substances upon notification by the U. S. Postal Service at Landlord's sole cost and expense in accordance with EPA and/or State guidelines. If ACBM is subsequently found which reasonably should have been determined, identified, or known to the Landlord, the Landlord agrees to conduct, at Landlord's sole expense, an asbestos survey pursuant to the standards of the Asbestos Hazard Emergency Response Act (AHERA), establish an Operations and Maintenance (O&M) plan for asbestos management, and provide the survey report and plan to the Postal Service. If the Landlord fails to remove any friable asbestos or hazardous/toxic materials or substances, or fails to complete an AHERA asbestos survey and O&M plan, the Postal Service has the right to accomplish the work and deduct the cost plus administrative costs, from future rent payments or recover these costs from Landlord by other means, or may, at its sole option, cancel this Lease. In addition, the Postal Service may proportionally abate the rent for any period the premises, or any part thereof, are determined by the Postal Service to have been rendered unavailable to it by reason of such condition.~~

~~The Landlord hereby indemnifies and holds harmless the Postal Service and its officers, agents, representatives, and employees from all claims, loss, damage, actions, causes of action, expense, fees and/or liability resulting from, brought for, or on account of any violation of this clause.~~

~~The remainder of this clause applies if this Lease is for premises not previously occupied by the Postal Service.~~

~~By execution of this Lease the Landlord certifies:~~

~~a. the property and improvements are free of all contamination from petroleum products or any hazardous/toxic or unhealthy materials or substances, including friable asbestos materials, as defined by applicable State or Federal law;~~



General Conditions to USPS Ground Lease

b. there are no undisclosed underground storage tanks or associated piping, ACGM, radon, lead based paint, or lead piping or solder in drinking water systems, on the property; and

c. it has not received, nor is it aware of, any notification or other communication from any governmental or regulatory entity concerning any environmental condition, or violation or potential violation of any local, state, or federal environmental statute or regulation, existing at or adjacent to the property.

10. FACILITIES NONDISCRIMINATION DELETED - see Addendum, Paragraph 24

a. By executing this Lease, the Landlord certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform services at any location under its control where segregated facilities are maintained.

b. The Landlord will insert this clause in all contracts or purchase orders under this Lease unless exempted by Secretary of Labor rules, regulations, or orders issued under Executive Order 11246.

11. CLAUSES REQUIRED TO IMPLEMENT POLICIES, STATUTES, OR EXECUTIVE ORDERS DELETED - see Addendum Paragraph 36

The following clauses are incorporated in this Lease by reference. The text of incorporated terms may be found in the Postal Service's Supplying Principles and Practices, accessible at www.usps.com/publications.

Clause 1-1, Privacy Protection (July 2007)

Clause 1-5, Gratuities or Gifts (March 2006)

Clause 1-6, Contingent Fees (March 2006)

Clause 4-2, Contract Terms and Conditions Required to Implement Policies, Statutes or Executive Orders (July 2009)

Clause 9-3, Davis Bacon Act (March 2006)¹

Clause 9-7, Equal Opportunity (March 2006)²

Clause 9-13, Affirmative Action for Handicapped Workers (March 2006)³

Clause 9-14, Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era (March 2006)⁴

Clause B-25, Advertising of Contract Awards (March 2006)

Note: For purposes of applying the above standard clauses to this Lease, the terms "supplier," "contractor," and "lessor" are synonymous with "Landlord," and the term "contract" is synonymous with "Lease."

¹ For premises with net interior space in excess of 6,500 SF and involving construction work over \$2,000.

² For leases aggregating payments of \$10,000 or more.

³ For leases aggregating payments of \$10,000 or more.

⁴ For leases aggregating payments of \$25,000 or more.

SAN FRANCISCO INTERNATIONAL AIRPORT

PARCEL 10F

Drawing No. CA 2014-01

A portion of the San Francisco International Airport being located in Section 34, Township 3 South, Range 5 West, Mount Diablo Base and Meridian as shown on Swamp and Overflowed Lands Survey No. 7, County of San Mateo, State of California

Commencing at the intersection of the center lines of the Bayshore Freeway and San Bruno Avenue, which point of intersection is California Highway Commission Station 'F2' Line 325+29.23 P.O.T, Route 101, District IV as shown on Sheet 2, Drawing No. R-35.2 entitled Right of Way Record Map;

Thence along said 'F2' Line, South 13°52'28" East a distance of 3685.60 feet, said point being Station 362+14.54 per California Highway Commission Station 'F2' Line, Route 101, District IV as shown on Sheet 5, Drawing No. R-35.5 entitled Right of Way Record Map;

Thence departing said 'F2' Line, North 73°57'54" East a distance of 115.69 feet to boundary line common to the San Francisco International Airport and the California Highway Commission and being South 13°52'58" East a distance of 293.84 feet from a ¾" Iron Pipe with tag "LS4328" as shown on Record of Survey No. 2369 recorded in Volume 38 of L.L.S., Page 19 Official Records of San Mateo County;

Thence, North 73°57'54" East a distance of 837.23 feet;

Thence, North 16°02'06" West a distance of 50.00 feet to the Point of Beginning;

Thence, North 16°02'06" West a distance of 739.53 feet;

Thence, North 73°57'54" East a distance of 512.53 feet to a point of cusp;

Thence southwesterly, southerly and southeasterly 136.03 feet along a curve concave to the east, having a radius of 53.00 feet, through a central angle of 147°03'33" and having a chord bearing and distance of South 0°07'57" West, 101.65, to the point of a reverse curve concave to the southwest and having a radius of 90.00 feet;

Thence southeasterly 90.10 feet along said curve, through a central angle of 57°21'40" and having a chord bearing and distance of South 44°42'55" East, 86.39 feet to the point of tangent;

Thence; South 16°02'05" East a distance of 421.45 feet to the beginning of curve concave to the west and having a radius of 64.35 feet;


Thence southerly 50.54 feet along said curve, through a central angle of 45°00'00" and having a chord bearing and distance of South 06°27'54" West, 49.25 to the point of tangent;

Thence, South 28°57'54" West a distance of 87.74 feet to the beginning of a curve concave to the northwest and having a radius of 126.73 feet;

Thence southwesterly 99.53 feet along said curve, through a central angle of 45°00'00" and having a chord bearing and distance of South 51°27'54" West, 97.00 feet to the point of tangent;

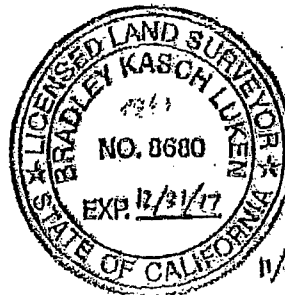
Thence, South 73°57'54" West a distance of 355.18 feet to the Point of Beginning.

The above described easement area contains 374,926 square feet/8.61 acres, more or less.



Brad Luken, LS8680

San Francisco International Airport



11/6/17

The basis of bearing for this description is the 'Fz' Line per California Highway Commission, Route 101, District IV as shown Drawing No. R-35.1 through R-35.5 and is taken to bear: South 13°52'28" East

1. BASIS OF BEARINGS: TIC FZ LINE PER CALIFORNIA HIGHWAY COMMISSION, ROUTE 101, DISTRICT IV, DRAWING NO. R-35.1 THROUGH R-35.5, TAKEN TO BEAR: $S13^{\circ} 52' 28'' E$

2. THIS SURVEY IS VALID ONLY IF THE DRAWING INCLUDES THE SEAL AND SIGNATURE OF THE SURVEYOR.

J. THIS SURVEY MEETS OR EXCEEDS CURRENT CALIFORNIA STATE MINIMUM STANDARDS FOR SURVEYS OF THIS TYPE:

4. THIS SURVEY IS SUBJECT TO ALL RECORD EASEMENTS RECORDED IN THE OFFICIAL RECORDS OF SAN MATEO COUNTY.

5. THE BOUNDARY LINES COMMON TO THE CALIFORNIA HIGHWAY COMMISSION AND THE SAN FRANCISCO INTERNATIONAL AIRPORT ARE REFERENCED FROM RECORD OF SURVEY 2369, RECORDED IN VOLUME 38 OF L.L.S., PAGE 12-28, OFFICIAL RECORDS OF SAN LUIS OBISPO COUNTY



P.O.C.

P.O.B.

POINT OF COMMENCEMENT

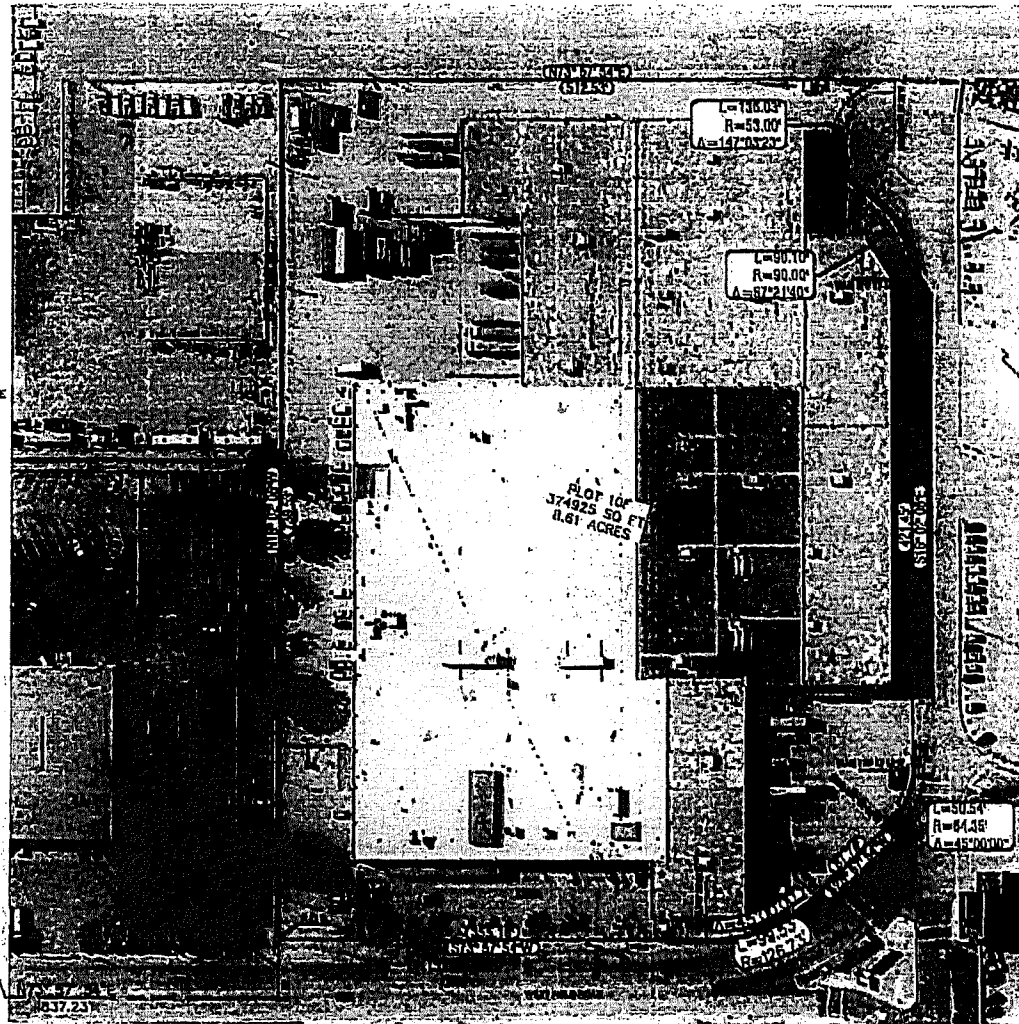
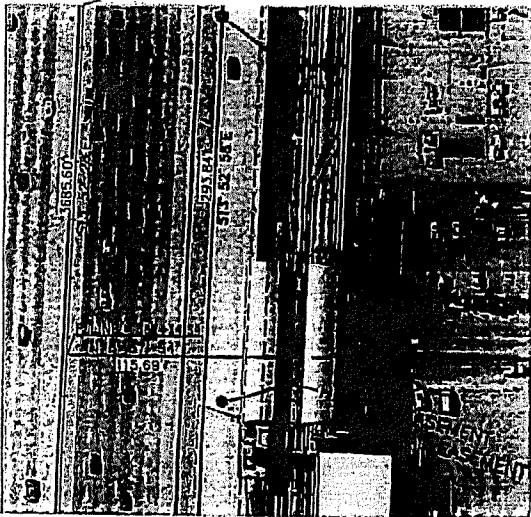
POINT OF BEGINNING

AIRPORT BOUNDARY LINE

LEASE AREA BOUNDARY LINE

CENTER LINE

EASEMENT



THIS MAP WAS PREPARED UNDER MY DIRECTION AT THE REQUEST OF THE
SAN FRANCISCO INTERNATIONAL AIRPORT, THEREBY CERTIFYING THAT THIS
MAP REPRESENTS A SURVEY OF THE LAND SHOWN HEREON.

GRAD LUKEN, LS-8400



IF THIS SHEET IS LESS THAN 22" X 34" IT IS A REDUCED PRINT - SCALE REDUCED ACCORDINGLY.

SFO

San Francisco International Airport

Key Map

[illegible]

PLEASE L17-0232

UNITED STATES
POSTAL SERVICE
GROUND LEASE

PLOT 10F
LEASE BOUNDARY



121	036	4	106	704
AIRMAIL DEPUTY AIRPORT DIRECTOR AIRMAIL AIRMAIL AIRMAIL				
DEPUTY DIR W. CUKEN		17 AUGUST 2014 10 100 100		
GA 2014-01		1 of 1		



San Francisco International Airport

MEMORANDUM

December 19, 2017

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

FROM: Airport Director

SUBJECT: Correction of Commission Resolution No. 17-0232 to Restate the Annual Rent for a Ground Lease with the United States Postal Service at Plot 10F, and Issuance of a Replacement Resolution Number

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO CORRECT THE ANNUAL RENT FOR THE GROUND LEASE WITH THE UNITED STATES POSTAL SERVICE, AS APPROVED IN RESOLUTION NO. 17-0232, AND REPLACE THE RESOLUTION NUMBER.

Executive Summary

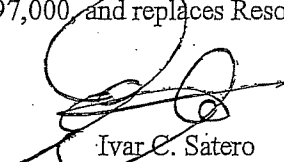
Staff is seeking Commission authorization to: 1) correct Commission Resolution No. 17-0232 due to an error relating to the annual rent for the United States Postal Service Ground Lease, which corrects the annual rent from \$1,445,600 to \$1,497,000, and 2) replace the resolution number.

Background

On September 17, 2017, by Resolution No. 17-0232, the Commission awarded a Ground Lease with the United States Postal Service ("Postal Service") for approximately 8.61 acres of land at Plot 10F at an initial annual rent of \$1,445,600. The annual rent was misstated. Staff is seeking Commission authorization to correct the annual rent from \$1,445,600 to \$1,497,000 with a replacement resolution number.

Recommendation

I recommend adoption of the attached resolution that corrects the initial annual rent for the United States Postal Service Ground Lease, from \$1,445,600 to \$1,497,000, and replaces Resolution No. 17-0232.


Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachment

THIS PRINT COVERS CALENDAR ITEM NO. 8

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

IVAR C. SATERO
AIRPORT DIRECTOR

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 17-0325

**CORRECTION OF THE ANNUAL RENT FOR THE GROUND LEASE WITH THE
UNITED STATES POSTAL SERVICE, AS APPROVED IN RESOLUTION NO. 17-0232,
AND REPLACEMENT OF THE RESOLUTION NUMBER**

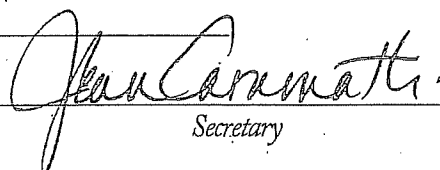
WHEREAS, on September 17, 2017, by Resolution No. 17-0232, the Commission approved a Ground Lease with the United States Postal Service ("Postal Service") for approximately 8.61 acres of land at Plot 10F at an initial annual rent of \$1,445,600; and

WHEREAS, the initial annual rent was misstated; and

WHEREAS, staff is seeking Commission authorization to correct the annual rent, from \$1,445,600 to \$1,497,000, and replace Resolution No. 17-0232; now, therefore be it

RESOLVED, that the Airport Commission hereby authorizes the correction of the initial annual rent for the United States Postal Service Ground Lease, from \$1,445,600 to \$1,497,000, and the issuance of a replacement resolution.

I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of DEC 19 2017


Secretary



San Francisco International Airport

MEMORANDUM

September 19, 2017

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: Ground Lease with the United States Postal Service at Plot 10F

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO 1) APPROVE A GROUND LEASE WITH THE UNITED STATES POSTAL SERVICE FOR APPROXIMATELY 8.61 ACRES OF LAND ON PLOT 10F, AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

The United States Postal Service ("Postal Service") currently occupies approximately 8.61 acres of land at Plot 10F to operate an International Service Center ("ISC") pursuant to Public Utilities Commission Lease No. 24392 between the United States of America and the San Francisco International Airport ("Airport"). This lease expired on August 31, 2017. The Postal Service wishes to continue the ISC operation at Plot 10F pursuant to a new ground lease with a term of five years, plus four five-year options to extend the term, exercisable at Commission's discretion, but subject to the Postal Service's approval of funding, and at an initial annual rent of \$1,445,600. The commencement date of the new ground lease will be retroactive to September 1, 2017.

Background

Under Public Utilities Commission Lease No. 24392, approved on October 20, 1964, the United States of America, leases approximately 8.61 acres of land at Plot 10F. All facilities, structures and improvements currently on the demised premises were constructed by the Postal Service; however, title to such improvements, except personal property and equipment, vested in the City at the end of the 10th year of the term of the existing lease.

THIS PRINT COVERS CALENDAR ITEM NO. 9

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

IVAR C. SATERO
AIRPORT DIRECTOR

The existing lease has a term of 10 years with eight five-year options to extend, for a total of 50 years. The last option period expired on August 31, 2017 and the lease, thereafter, reverted to hold over status. The current rent is \$1,054,674.11 per year.

The Postal Service wishes to continue occupancy of the demised premises, together with existing City owned buildings and structures, including Building 660, at Plot 10F to operate the ISC and post office pursuant to a new ground lease (the "Lease"). Staff is proposing approval of a ground lease in lieu of a facility lease in light of the Airport's potential repurposing of Plot 10F, and the facilities thereon, as a distribution center that would centralize airfield access for the Airport's concessionaire tenant's contractors and vendors. For this reason, the term is also structured such that the 5-year option periods will be at the Airport's discretion. This will provide flexibility to terminate the USPS lease if the Airport's development of the distribution center is determined to be the preferred use for Plot 10F.

The proposed term is five years with four five-year options to extend at the Commission's discretion, but subject to the Postal Service's approval of funding. The Lease will commence retroactively on September 1, 2017, upon full approval by the City of San Francisco ("City"). The annual rent for the first year of the term will be \$1,445,600 based on the fair market value of the land only, as determined by a reappraisal by the City's Real Estate Department, which reflects an increase of approximately 37 percent over the current rent.

Proposal

Staff has negotiated the Lease with proposed business terms as follows:

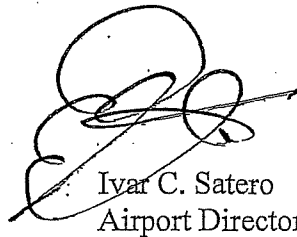
1. **Approved Use:** Operation of an International Service Center and public post office, and ancillary public and employee vehicle parking.
2. **Premises:** Comprised of approximately 8.61 acres of land.
3. **Term:** Five years.
4. **Option Terms:** Four five-year options to extend the term at the Airport Director's discretion, conditioned upon two years prior written notice, and subject to the Postal Service's approval of funding.
5. **Commencement Date:** Retroactively on September 1, 2017, upon full approval by City.
6. **Expiration Date:** August 31, 2023 for the initial term.
7. **Annual Rent:** \$1,445,600 for Year 1 of the term. Annual rent for Years 2-5 is escalated by three percent each year thereafter.
8. **Rental Rate:** Based on fair market value of land only equal to \$167,809.79 per acre per year.
9. **Rent Adjustment:** Fair market value of the land only will be reappraised to determine the rent for the first year of each Option Term. An appraisal methodology was negotiated by the parties, commencing with an appraisal by the City's Real Estate Department. In the event the parties do not agree on that market value, the Lease provides for a structured process designed to determine a mutually agreed upon market value.

For each subsequent year, a fixed increase will be applied to the rent, equal to the increase in the All Urban Consumers – All Items for the San Francisco- Oakland- San Jose Area index for the 12 month period, commencing July 1st and ending June 30th, prior to the 6th, 11th, 16th, and 21st year of the term, should the Airport extend the Lease term.

10. **Deposit:** Not applicable due to the Postal Service's federal agency status.
11. **Maintenance:** Postal Service maintains, at its sole cost and expense, all buildings, structures, and improvements constructed on the demised premises, including streets, roads, parking areas, curbs and sidewalks, in good order and repair and in compliance with applicable laws and regulations.
12. **Utilities:** At Postal Service's sole cost and expense.

Recommendation

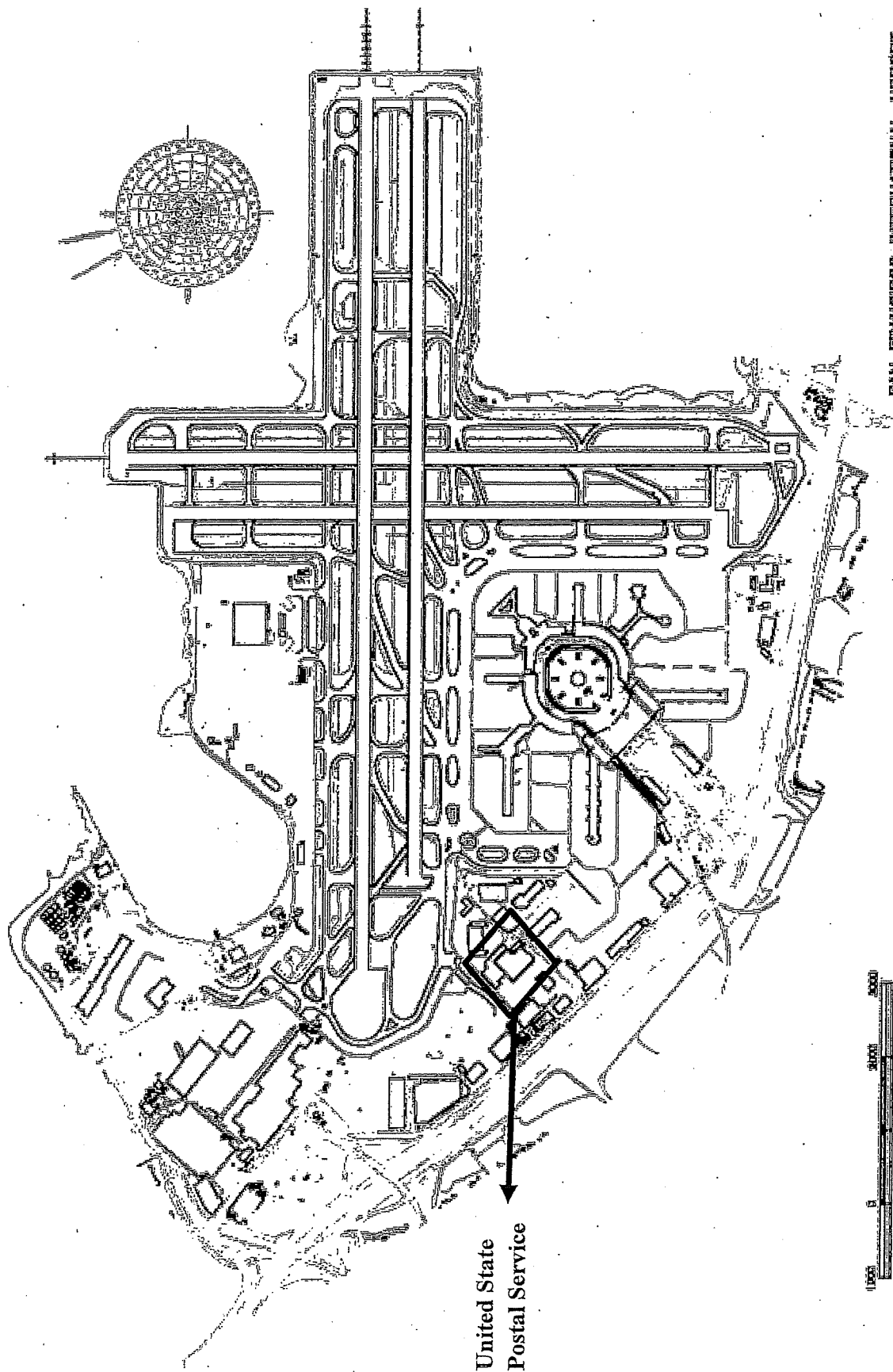
I recommend adoption of the attached resolution that: 1) approves a ground lease with the United States Postal Service for approximately 8.61 acres of land, together with existing City-owned buildings and structures at Plot 10F, commencing retroactively on September 1, 2017, upon full City approval, with a term of five years with four five-year options to extend the term, and at an initial annual rent of \$1,445,600; and 2) directs the Commission Secretary to forward the lease to the Board of Supervisors for approval.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments



United States
Postal Service



GRAPHICAL SCALE (FEET)

Prepared by: Facilities
Erica Davis - Deputy Airport Director

SAN FRANCISCO INTERNATIONAL AIRPORT
CITY & COUNTY OF SAN FRANCISCO
AIRPORT COMMISSION
John L. Martin - Airport Director
March 2007

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 17-0232

1) APPROVAL OF A GROUND LEASE WITH THE UNITED STATES POSTAL SERVICE FOR APPROXIMATELY 8.61 ACRES OF LAND ON PLOT 10F, AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, pursuant to Public Utilities Commission Lease No. 24392, the United States of America leases approximately 8.61 acres of land, together with existing City owned buildings and structures, at Plot 10F, for occupancy by the United States Postal Service ("Postal Service") to operate an International Service Center ("ICS") and public post office at a current rent of \$1,054,674.11 per year; and

WHEREAS, Lease No. 24392 expired on August 31, 2017 and reverted to hold over status, and the Postal Service wishes to continue occupancy of postal facilities and land at Plot 10F for a continuation of the ICS operation and post office pursuant to a new lease; and

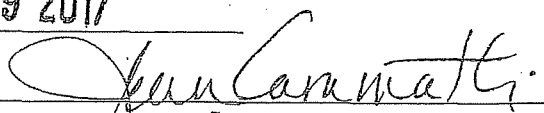
WHEREAS, Airport staff has negotiated a lease with the Postal Service for the land, together with the existing City-owned buildings and structures at Plot 10F (the "Lease"), to be effective retroactively on September 1, 2017, upon full City approval, which provides for: 1) use and occupancy for operation of the ISC and post office, and ancillary purposes, 2) a demised premises comprised of approximately 8.61 acres of land, 3) a term of five years with four five-year options to extend at the Airport Director's discretion but subject to the Postal Services' approval of funding, and 4) an initial annual rent of \$1,445,600; now, therefore be it

RESOLVED, that the Airport Commission hereby approves and authorizes the Airport Director to execute the Lease with the Postal Service commencing retroactively on September 1, 2017, upon full City approval, which provides for: 1) use and occupancy for operation of the ISC and post office, and ancillary purposes, 2) a demised premises comprised of approximately 8.61 acres of land, 3) a term of five years with four five-year options to extend at the Airport Director's discretion but subject to the Postal Service's approval of funding, and 4) an initial annual rent of \$1,445,600, and on the other 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 pursuant to Section 9.118 of the City Charter.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of SEP 19 2017


Secretary



San Francisco International Airport

January 5, 2018

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 a Ground Lease No. L17-0232 between the United States Postal Service and the City and County of San Francisco for Occupancy of Approximately 8.61 Acres of Land at Plot 10F at the San Francisco International Airport

Dear Ms. Calvillo:

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval, Lease No. L17-0232 (the "Lease") between the City and County of San Francisco, acting by and through its Airport Commission ("Airport"), and the United States Postal Service for occupancy of approximately 8.61 acres of land for operation of an International Service Center at Plot 10F. The Lease was approved by Airport Commission Resolution No. 17-0232, adopted September 19, 2017, and corrected and restated by Airport Commission Resolution No. 17-0325, adopted December 19, 2017.

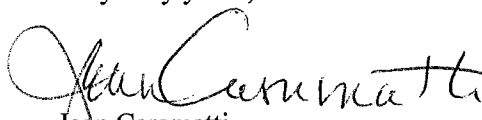
The Lease provides for a five-year term, with four five-year options to extend the term at the Airport's discretion. The initial annual rent is \$1,497,000 per year.

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

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 17-0232;
- Approved Airport Commission Resolution No. 17-0325;
- Commission Memorandum dated September 19, 2017;
- Commission Memorandum dated December 19, 2017; and
- Lease No. L17-0232.

You may contact Cathy Widener, Governmental Affairs Manager, at (650) 821-5023 regarding this matter.

Very truly yours,


Jean Caramatti
Commission Secretary

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Enclosures

cc: Cathy Widener

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