



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: William F. Sherry, A.A.E.

SUBJECT: SEE BELOW

DATE: November 22, 2010

Approved

Date

12/1/10

COUNCIL DISTRICT: City-Wide

**SUBJECT: FIRST AMENDMENT TO THE LEASE OF AIRPORT PREMISES WITH
SOUTHWEST AIRLINES AT 1239 AIRPORT BOULEVARD**

RECOMMENDATION

Adopt of a resolution authorizing the Director of Aviation to:

- (1) Negotiate and execute a First Amendment to the Lease of Airport Premises at 1239 Airport Boulevard ("Lease") with Southwest Airlines Co. ("Southwest") to extend the term for 5 years commencing on January 1, 2011, subject to termination by the Director of Aviation ("Director") with ninety (90) days written notice, with annual revenue to the City of \$111,300; and
- (2) Negotiate and execute an Amendment to the Lease to extend the term of the Lease for up to an additional 5 years commencing on January 1, 2016, subject to termination by the Director with ninety (90) days written notice.

OUTCOME

Approval of the proposed First Amendment will permit Southwest to continue to conduct their provisioning operations in the current leased warehouse location.

BACKGROUND

On September 18, 2007, City Council adopted Resolution 73996 authorizing the City Manager to negotiate and execute a Ground Lease Agreement with Southwest for the development of a provisioning facility at the Airport. The Ground Lease encompasses 2.4 acres of undeveloped land on the southeast corner of the Airport and is for a 20 year term effective October 3, 2008.

On May 19, 2009, Council approved the First Amendment to the Ground Lease delaying the commencement of construction of the provisioning facility due to the poor economic climate.

On December 1, 2008, City entered into a month-to-month Lease with Southwest for a warehouse at 1239 Airport Boulevard to accommodate its immediate provisioning needs. The Lease expires on December 31, 2010, and is terminable by either party on 30 days written notice. It encompasses approximately 11,000 square feet of hangar/office space as well as approximately 9,000 square feet of surrounding asphalt/concrete. Southwest uses the warehouse and surrounding land for provisioning operations and storage.

ANALYSIS

Southwest continues to lease and pay full rent for the 2.4 acres of undeveloped land under the Ground Lease, but, due to the continuing difficult economic environment, it is unable to commence development of the new provisioning facility. Southwest has requested to extend the Lease for the warehouse currently used for its provisioning operations for a minimum of an additional 5 years.

Staff acknowledges the difficult economic environment which is delaying construction of the new Southwest provisioning facility and recommends extension of the Lease for 5 years beginning on January 1, 2011. Should economic conditions not improve enough for the construction of the provisioning facility within the 5 year extension, Staff further recommends authorizing the Director to extend the Lease for an additional 5 years beginning on January 1, 2016.

Currently, both Southwest and the Airport have the right to terminate the Lease with 30 days notice. To provide Southwest with a longer period of time to prepare for a Lease termination, the First Amendment will give the Director, but not Southwest, the authorization to terminate the Lease with 90 days notice. Southwest will no longer have the right to terminate the Lease.

EVALUATION AND FOLLOW-UP

The Director will continue to monitor the economic climate and will terminate the Lease when Southwest completes development of its new provisioning facility.

PUBLIC OUTREACH/INTEREST



Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach). **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item does not meet the above criteria requiring additional notification; however, it will be posted on the City's Council Agenda Website for the December 14, 2010 Council Meeting.

COORDINATION

This item has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COST IMPLICATIONS

None.

CEQA

Not a project, File No. PP10-066(f), Lease of existing space for same use.

/s/
WILLIAM F. SHERRY, A.A.E.
Director of Aviation
Airport Department

For questions please contact William F. Sherry, Director of Aviation at (408) 392-3611.