



**SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY  
STAFF REPORT**

**Item No.  
11**

Meeting Date: **DECEMBER 2, 2010**

**Subject:**

**Authorize the President/CEO to Execute a Second Amendment to the Lease with San Diego Air and Space Technology Center, Inc.**

**Recommendation:**

Adopt Resolution No. 2010- 0134, authorizing the President/CEO to execute a second amendment to the Lease with the San Diego Air and Space Technology Center, Inc., extending the term of the lease for ten (10) years to March 31, 2021.

**Background/Justification:**

The San Diego Air and Space Technology Center, Inc. ("SDASTC"), a wholly-owned subsidiary of the San Diego Air and Space Museum, has a Lease with the Authority covering approximately 50,000 square feet of land located at 3050 Pacific Highway. The SDASTC uses its leasehold to house and operate its Low Speed Wind Tunnel ("LSWT") which is owned by SDASTC. The LSWT provides critical aeronautical testing services for the aviation industry. The existing Lease with SDASTC commenced January 1, 1996 and is to expire March 31, 2011. SDASTC has requested a ten-year extension of its Lease to March 31, 2021. In return, SDASTC will invest a minimum of \$650,000 to upgrade the LSWT and pay increased rent.

**LSWT Provides Unique and Vital Services to the Aviation Industry**

The LSWT is the only commercial facility of its kind in the United States. Since 1947, the LSWT has provided critical testing services for civilian aircraft manufacturers (e.g., Boeing, Gulfstream and Cessna), for military aircraft (e.g., F-106, B-58, F-111, and F-16), for military unmanned aerial vehicles and missiles (e.g., the Global Hawk, the Predator, the Tomahawk Cruise Missile, and the Advanced Cruise Missile) and for numerous aeronautical manufacturers (e.g., Lockheed Martin Corporation, Korea Aerospace, and Raytheon). Boeing has used the LSWT exclusively to "flutter" certify all its airliners developed since 1962. One of the unique characteristics of the LSWT facility is the building structure itself which forms the wind tunnel. As a result, it is not feasible to dismantle the LSWT and relocate it to another location.

**Proposed Key Terms of the Amendment Extending the Lease**

The proposed amendment to the Lease requires SDASTC to expend a minimum of \$650,000 to upgrade the LSWT by replacing the obsolete, turbine-driven, rotating equipment with a state-of-the-art, variable-frequency drive system. This upgrade will not only improve the LSWT's accuracy, but will also be more energy efficient.

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Planned improvements north of the airfield, including the Consolidated Rental Car Facility and the airport-dedicated roadway, may impact SDASTC's leasehold. While the Authority is exploring options to retain the existing LSWT facility, the proposed Lease amendment reserves to the Authority the right to terminate the Lease on 180-days' notice whereby the Authority would reimburse SDASTC for the unamortized portion of its investment in upgrading the LSWT.

The proposed amendment will increase SDASTC's annual rent in the first year from \$77,016 to \$86,400; a 12.18% increase. Thereafter, the rent is proposed to be adjusted to fixed amounts through the fifth year. In the sixth year the rent will be renegotiated and be subject to annual adjustments based on changes in the Consumer Price Index. The initial rental rate is equivalent to an annual per square foot rate of \$2.30. This rate is less than the \$3.00 per square foot rate the Authority has negotiated for other property, but does provide the Authority a 9% rate of return on the lease cost for the land occupied by SDASTC. Additionally, the FAA's policy for airports to be financially self-sustaining permits airport operators to charge "aeronautical users" and air museums less than fair market value. The FAA defines "aeronautical users" as "any activity which involves, makes possible, or is required for the operation of aircraft, or which contributes to or is required for the safety of such operations." The LSWT, as operated by the Air and Space Museum's SDASTC, provides a unique capability that is critical for the development and testing of aeronautical platforms.

Attachment A provides a more detailed comparison of the terms under the existing Lease and the terms of the proposed amendment.

**Fiscal Impact:**

The proposed amendment will increase the Authority's rent revenues received from the LSWT facility by \$9,384 in the first year of the extended term and \$142,920 over the first five years thereof.

**Environmental Review:**

- A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.
- B. California Coastal Act: This Board action is not a "development" as defined by the California Coastal Act, Cal. Pub. Res. Code §30106.

**Equal Opportunity Program:**

Not applicable

**Prepared by:**

VERNON D. EVANS  
VICE PRESIDENT, FINANCE/TREASURER





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| <b>Security Deposit:</b> | \$16,731 for remedying defaults in the payment of rent, to repair damage to premises, or to clean premises upon expiration or sooner termination of Lease.<br>\$419,989 for demolition and remediation<br>\$211,662 for demolition costs and/or remedying defaults described above. | \$21,500 for remedying defaults in the payment of rent, to repair damage to premises, or to clean premises upon expiration or sooner termination of Lease.<br>\$419,989 for demolition and remediation<br>\$211,662 for demolition costs and/or remedying defaults described above. |
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RESOLUTION NO. 2010-0134

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY AUTHORIZING THE PRESIDENT/CEO TO EXECUTE A SECOND AMENDMENT TO THE LEASE WITH SAN DIEGO AIR AND SPACE TECHNOLOGY CENTER, INC. EXTENDING THE TERM OF THE LEASE FOR TEN YEARS TO MARCH 31, 2021

WHEREAS, the San Diego Air and Space Technology Center, Inc. ("SDASTC") is a wholly owned subsidiary of the San Diego Air and Space Museum; and

WHEREAS, the SDASTC leases from the Authority property located at 3050 Pacific Highway, San Diego, California to house and operate the Low Speed Wind Tunnel ("LSWT"); and

WHEREAS, the SDASTC lease is to expire March 31, 2011; and

WHEREAS, the LSWT is the only commercial facility in the United States that is able to provide unique and critical aeronautical testing services for the aviation industry; and

WHEREAS, it is not cost effective to relocate the LSWT to another location because the structure of the facility housing the LSWT is an integral part of the wind tunnel; and

WHEREAS, SDASTC has requested its lease be amended to extend the term of the lease for ten additional years to March 31, 2021; and

WHEREAS, under the terms of the proposed lease amendment, SDASTC will expend a minimum of Six Hundred Fifty Thousand Dollars (\$650,000) to upgrade the LSWT to a state-of-the-art capability that will better serve the needs of the aeronautical industry; and

WHEREAS, under the terms of the lease the Authority will reserve the right to terminate the lease on One Hundred Eighty (180) days notice whereby the Authority will reimburse SDASTC for the unamortized portion of the cost of upgrading the LSWT; and

WHEREAS, under the terms of the proposed lease amendment, the rent SDASTC pays the Authority will increase initially to Eighty-Six Thousand Four Hundred Dollars (\$86,400); and

WHEREAS, the proposed lease amendment provides additional terms and conditions that are favorable to the Authority; and

WHEREAS, the Board finds that amending the SDASTC lease to extend the term of the lease for ten additional years, increase the rent, and provide for an upgrade LSWT capability is in the best interest of the Authority as well as the aeronautical industry; and

WHEREAS, this Board action is not a project that will have a significant effect on the environment as defined in the California Environmental Quality Act (CEQA), as amended, and does not constitute a "project" as defined in CEQA. [Cal. Pub. Res. Code §21065; 14 Cal. Code of Regs. §15378]; and

WHEREAS, this Board action is not a "development" as defined by the California Coastal Act. [Cal. Pub. Res. Code §30106].

NOW, THEREFORE, BE IT RESOLVED that the Board hereby authorizes the President/CEO to take necessary and appropriate action to amend the SDASTC lease where such amendment shall include: (1) extending the term of the lease for an additional ten (10) years to March 31, 2021; (2) adjusting the annual rent for the initial five (5) years according to the following schedule:

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|---------|-----------|
| Year 1: | \$ 86,400 |
| Year 2: | \$ 96,000 |
| Year 3: | \$105,600 |
| Year 4: | \$115,200 |
| Year 5: | \$124,800 |

Renegotiating the rent in the sixth year, and adjusting the rent annually thereafter based on changes in the Consumer Price Index; (3) reserving the Authority's right to terminate the lease on One Hundred Eighty (180) days' notice whereby the Authority will reimburse SDASTC for the unamortized cost of the LSWT upgrade; and (4) requiring SDASTC expend a minimum of Six Hundred Fifty Thousand Dollars (\$650,000) to upgrade the LSWT; and

BE IT FURTHER RESOLVED that the Board hereby ADOPTS the above recitals for incorporation in this resolution.

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**PASSED, ADOPTED, AND APPROVED** by the Board of the San Diego County Regional Airport Authority at a regular meeting this 2<sup>ND</sup> day of December, 2010, by the following vote:

**AYES:** Board Members:

**NOES:** Board Members:

**ABSENT:** Board Members:

**ATTEST:**

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**TONY R. RUSSELL**  
**DIRECTOR, CORPORATE SERVICES/  
AUTHORITY CLERK**

**APPROVED AS TO FORM:**

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**BRETON K. LOBNER**  
**GENERAL COUNSEL**

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