



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

**Item No.
10**

Meeting Date: **MAY 2, 2013**

Subject:

Authorize the President/CEO to Execute a Third Amendment to the Lease with San Diego Air and Space Technology Center, Inc., Reducing the Size of the Leasehold Premises by a Net Amount of 9,666 Square Feet of Land Area

Recommendation:

Adopt Resolution No. 2013-0043, authorizing the President/CEO to execute a third amendment to the Lease with the San Diego Air and Space Technology Center, Inc., reducing the size of the leasehold premises by a net amount of 9,666 square feet of land area, an action necessary to construct the North Side development projects.

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 49,285 square feet of land located at 3050 Pacific Highway ("Premises"). The SDASTC uses its leasehold to house and operate a Low Speed Wind Tunnel ("LSWT") owned by SDASTC. It has operated at the Premises since 1947 and provides critical testing services for the aviation industry. The original term of the Lease commenced January 1, 1996, and expired December 31, 2005. By the terms of Amendments No. 1 and 2 to the Lease, the term was extended to March 31, 2021.

Two of the Authority's north side development projects will impact the Premises as follows:

- 1) The site for development of the new Fixed Base Operation ("FBO") impacts approximately 4,500 square feet of SDASTC's Premises; and
- 2) The Terminal Link Road planned to serve the Rental Car Center located on the north side of the airport impacts approximately 5,873 square feet of SDASTC's Premises.

In an effort to mitigate these impacts, staff has identified approximately 707 square feet of land area adjacent to the SDASTC Premises that can be made available to SDASTC. After evaluating its space requirements and working with staff to ensure it has sufficient vehicle parking and access to its facility, SDASTC has determined that the resulting net deletion of 9,666 square feet of land area from its Premise will not negatively impact its operations. Attachment A delineates the areas proposed to be deleted and added to the Premises.

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Current and Proposed Rent

The current rent provided for in the Lease was negotiated in 2011 as part of Amendment No. 2 to the Lease and provides for fixed rates and increases for five years that result in a return to the Authority over the five year period equal to 9% over the Authority's rental expense to the Port of San Diego. Thereafter, the Lease provides for renegotiation of the rent by April 1, 2016, and annual adjustments based on changes in the Consumer Price Index ("CPI").

Staff has negotiated for an adjustment in the rents commensurate with the reduction in the Premises that maintains a 9.0% rate of return. Recent agreements granted to other parties by the Authority reflect land rental rates in the range of \$3.25 to \$9.70 per square foot per year (psfY). Neither the SDASTC's current or proposed rent, as detailed in the table below, approximates these rates until the last year of the Lease. The current and proposed rents consider that SDASTC provides a unique capability that is critical for the development and testing of aeronautical platforms and that the Federal Aviation Administration ("FAA") has a policy permitting airport operators to charge "aeronautical users" rental rates that are 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."

Additionally, whereas the Authority does not have the unilateral right to terminate SDASTC's use of a portion of its Premises without terminating the entire Lease and paying SDASTC the unamortized value of its improvements (defined in the Lease as \$455,000 under current term), as consideration for SDASTC's agreement to vacate the land area required for the Authority's north side development projects, staff also has negotiated the rents for the remainder of the Lease, also detailed below.

Period	Current Annual Rent	Proposed Annual Rent
04/01/2011 – 03/31/2012	\$86,400 (\$1.79 psfY)	Same
04/01/2012 – 03/31/2013	\$96,000 (\$1.99 psfY)	Same
04/01/2013 – 03/31/2014	\$105,600 (\$2.17 psfY)	\$74,998 (\$1.89 psfY)
04/01/2014 – 03/31/2015	\$115,200 (\$2.39 psfY)	\$79,934 (\$2.02 psfY)
04/01/2015 – 03/31/2016	\$124,800 (\$2.58 psfY)	\$87,652 (\$2.21 psfY)
04/01/2016 – 03/31/2017	Subject to negotiation	\$95,369 (\$2.41 psfY)
04/01/2017 – 03/31/2018	Subject to CPI adjustment	\$103,086 (\$2.60 psfY)
04/01/2018 – 03/31/2019	Subject to CPI adjustment	\$110,803 (\$2.80 psfY)
04/01/2019 – 03/31/2020	Subject to CPI adjustment	\$118,520 (\$2.99 psfY)
04/01/2020 – 03/31/2021	Subject to CPI adjustment	\$126,238 (\$3.19 psfY)
Internal Rate of Return	9% through 03/31/2016	9% through 03/31/2021

Fiscal Impact:

The proposed amendment will decrease the Authority's rent revenues received from SDASTC by \$103,016 over next three years. This reduction in revenue, however, will be offset by increased rent from the new FBO facility that will commence on May 1, 2013.

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Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

- A. California Environmental Quality Act: 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. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code §30106.

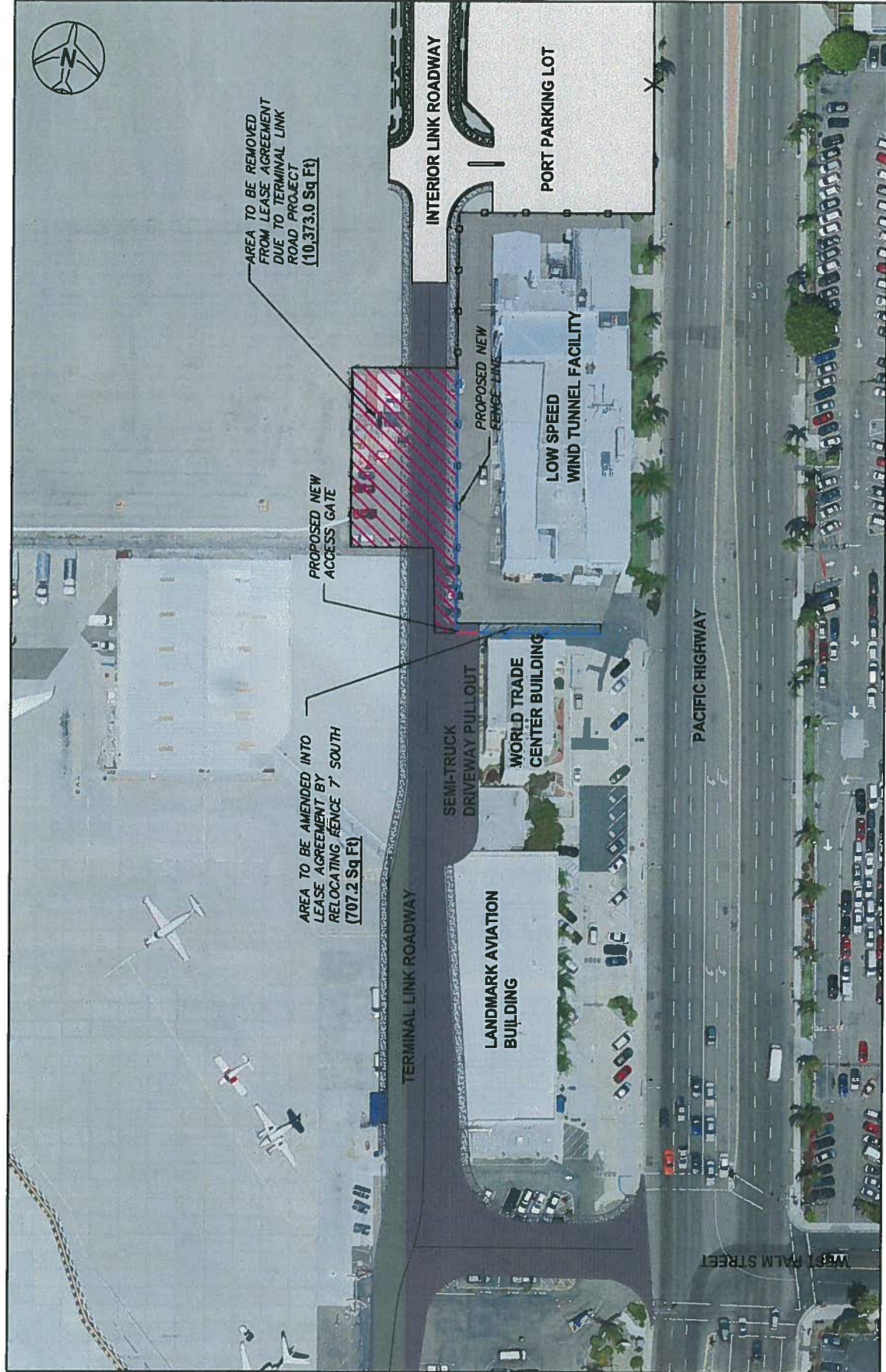
Equal Opportunity Program:

Not Applicable

Prepared by:

VERNON D. EVANS,
VICE PRESIDENT, FINANCE/TREASURER

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Scale: 1" = 100'

Wind Tunnel Property Exhibit

ATTACHMENT A

RESOLUTION NO. 2013-0043

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY AUTHORIZING THE PRESIDENT/CEO TO EXECUTE A THIRD AMENDMENT TO THE LEASE WITH SAN DIEGO AIR AND SPACE TECHNOLOGY CENTER, INC. REDUCING THE SIZE OF THE LEASEHOLD PREMISES BY A NET AMOUNT OF 9,666 SQUARE FEET OF LAND AREA

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 has a Lease with the San Diego County Regional Airport Authority ("Authority") covering 49,285 square feet of land located at 3050 Pacific Highway, San Diego, California ("Premises") to house and operate a Low Speed Wind Tunnel ("LSWT"); and

WHEREAS, the LSWT has operated at the Premises since 1947 and provides critical testing services for the aviation industry; and

WHEREAS, two Authority north side development projects are impacting the Premises: the new 12.4 acre Fixed Base Operation ("FBO") and the Terminal Link Road ("TLR"); and

WHEREAS, the FBO and TLR will be overlaying approximately 10,373 square feet of SDASTC's current leasehold land area; and

WHEREAS, in an effort to mitigate impacts, approximately 707 square feet of land adjacent to the Premises will be added to the land area for a total net reduction of 9,666 square feet of leasehold land area; and

WHEREAS, the Authority does not have the unilateral right to terminate SDASTC's use of a portion of its Premises without terminating the entire Lease and paying SDASTC unamortized value of its improvements; and

WHEREAS, the current and new rents consider that SDASTC provides a unique capability that is critical for the development and testing of aeronautical platforms and the Federal Aviation Administration policy permitting airport operators to charge aeronautical users rental rates that are less than fair market value; and

WHEREAS, an adjustment in the rents commensurate with the reduction in the Premises maintains a 9.0% rate of return for the Authority; and

WHEREAS, the new rents will be fixed until the end of the term, March 31, 2021, and according to the following schedule:

04/01/2013 to 03/31/2014	\$ 74,998
04/01/2014 to 03/31/2015	\$ 79,934
04/01/2015 to 03/31/2016	\$ 87,652
04/01/2016 to 03/31/2017	\$ 95,369
04/01/2017 to 03/31/2018	\$103,086
04/01/2018 to 03/31/2019	\$110,803
04/01/2019 to 03/31/2020	\$118,520
04/01/2020 to 03/31/2021	\$126,238

NOW, THEREFORE, BE IT RESOLVED that the Board hereby AUTHORIZES the President/CEO to negotiate and execute a third amendment to the Lease with San Diego Air and Space Technology Center, Inc. deleting 10,373 square feet of land area, adding 707 square feet of land area resulting in a net reduction in the leasehold premises by 9,666 square feet of land area, an action necessary to construct the north side development projects; and

BE IT FURTHER RESOLVED that the Board finds that 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 Pub. Res. Code §21065; and under the California Coastal Act Review, this Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code Section §30106.

PASSED, ADOPTED, AND APPROVED by the Board of the San Diego County Regional Airport Authority at a regular meeting this 2nd day of May, 2013, by the following vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK

APPROVED AS TO FORM:

BRETON K. LOBNER
GENERAL COUNSEL