

AGENDA REPORT

Ordinance: Approval of a *Space/Use Permit* with Alaska Airlines, Inc. for Space in the Port's Air Cargo Building. **(Aviation)**

MEETING DATE: 5/28/2015

AMOUNT: \$16,000 Per Month - Revenue

PARTIES INVOLVED: Alaska Airlines, Inc., Seattle, Washington,
Stephanie Cardenaz, Station Manager

SUBMITTED BY: Deborah Ale-Flint, Director of Aviation

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

This action would approve the terms and conditions, and authorize execution, of a *Space/Use Permit* ("SUP") with Alaska Airlines, Inc. ("Alaska"), covering 8,781± square feet of warehouse space in the Port's Air Cargo Building located on the South Field of Oakland International Airport ("OAK"). Monthly Rent, based on a recently-completed MAI appraisal of the entire Air Cargo Building, is \$16,000 (approximately \$1.82 per square foot per month). The term is five (5) years, terminable by either party upon thirty (30) days' written notice.

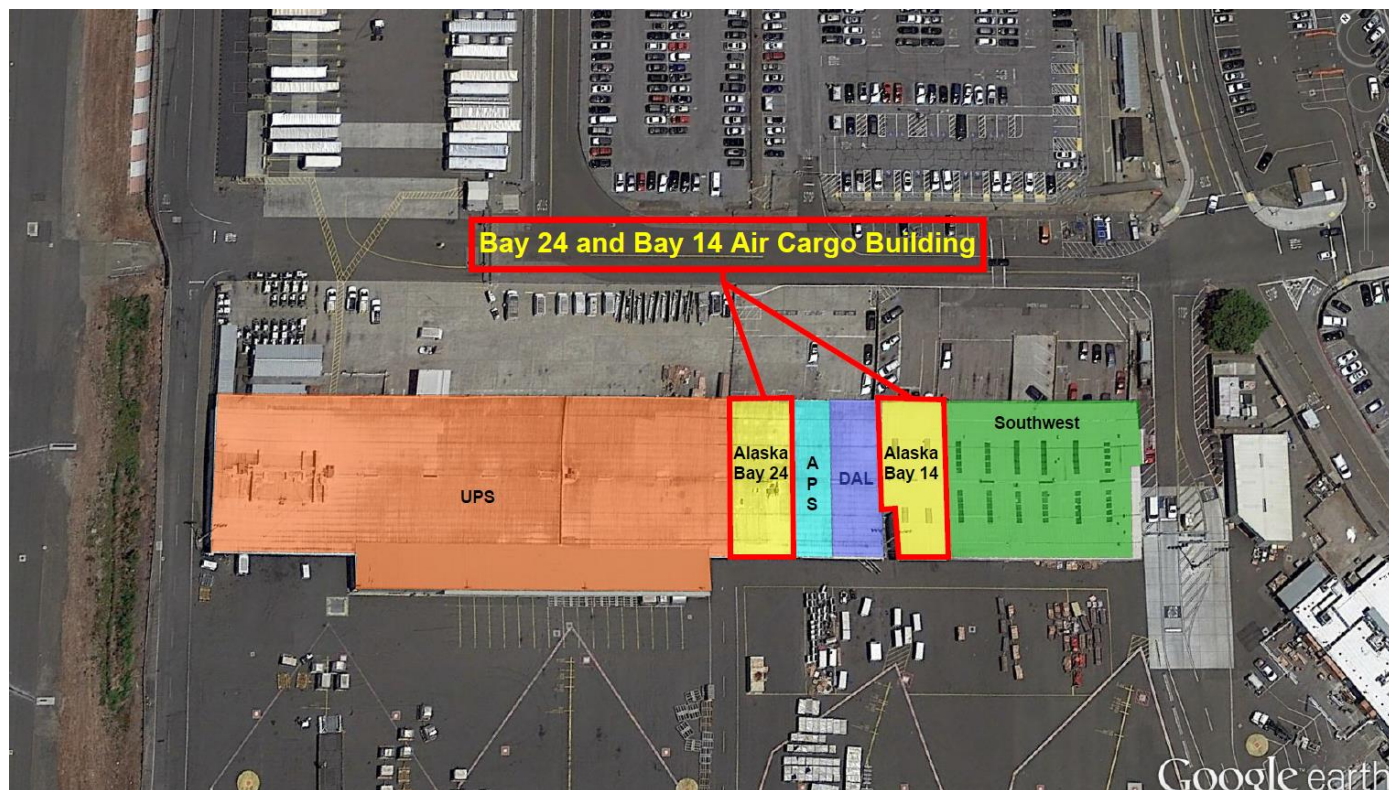
BACKGROUND

In 2005, pursuant to Port Resolution No. 05152, the Port and Alaska entered into a *License and Concession Agreement* for 4,381± square feet of warehouse space identified as Bay 14 in the Port's Air Cargo Building (M106) located on Alan Shepard Way, near the Terminal Complex.

At the time, Alaska was the third largest airline at OAK and operated from Terminal 1. Over the past ten years, Alaska has evolved to be OAK's second busiest carrier. After careful and diligent consideration, and based on OAK's value proposition and central location for the three



Bay Area airports it serves, Alaska has made the business case to consolidate its aircraft line maintenance storage at OAK by closing its maintenance stores facility at San Francisco International Airport. Port staff identified the only vacant space (Bay 24) in the Air Cargo Building as a suitable location for these maintenance storage activities.



ANALYSIS

Alaska will be keeping its existing space in Bay 14 and will add Bay 24 pursuant to the proposed *SUP* under the following terms and conditions:

- Premises: Bay 14 – 4,381± square feet in Port Building No. M106; and,
Bay 24 – 4,400± square feet in Port Building No. M112.
- Use: Administrative offices, aircraft line maintenance parts storage, and incidental uses reasonably related thereto.
- Term: Five (5) Years, terminable by either party on thirty (30) days' written notice; expires March 31, 2020.
- Rental: \$16,000 per month, subject to annual adjustment based on increases in the Consumer Price Index (rental is never reduced). Rental equates to \$1.82 per square foot, and was negotiated in 2014 when Alaska was considering the cost savings of consolidating its maintenance stores at OAK. The Air Cargo Building was the subject of a Fair Market Rental

Value ("FMRV") appraisal conducted by Smith & Associates which established a value of \$1.76 per square foot as of July 1, 2013. Therefore, the monthly rental should be considered FMRV.

Deposit: \$50,000 – consistent with Port Policy AP 509 – the proposed Performance Deposit is representative of three-times anticipated monthly payments.

Other tenants in the Air Cargo Building are paying equivalent per square foot rental rates:

Southwest Airlines Co.	\$1.85
DAL Global Services, Inc. (Delta)	1.82
Aviation Port Services, L.L.C.	1.85
United Parcel Service, Inc.	1.39

Except for UPS, rental rates are calculated on the square footage occupied within the Air Cargo Building (e.g., Alaska will occupy 8,781 SF \times \$1.82 \approx \$16,000). Rates vary slightly based on the month of annual CPI rental adjustment. These rates include access to the landside truck docks and vehicle parking areas plus space on the airfield for equipment storage and staging. UPS separately pays additional rental for its landside and airside areas, which when combined, approximates the \$1.82 - \$1.85 per square foot building rate paid by the other tenants of the Port's Air Cargo Building.

Alaska has completed in excess of \$100,000 in tenant improvements ("TIs") in Bay 24 of the Premises, including repair and/or removal of interior partition walls, installation of shelving, upgrades in restrooms to meet ADA requirements, and related electrical, mechanical and finish work. Construction of these TIs was subject to MAPLA.

Alaska's consolidation of maintenance stores at OAK will result in the hiring of one additional full-time employee to supplement the two existing maintenance stores workers.

BUDGET & STAFFING

The proposed action does not have any budget impact as the revenue has been anticipated in the adopted FY2014-15 Operating Budget and in the proposed FY2015-16 Operating Budget. The proposed action does not have any staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The action to approve the Space/Use Permit does not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply to this action. However, if in the future tenant construction work under this Space/Use Permit exceeds the thresholds required for coverage under the MAPLA, the provisions of MAPLA will apply when Port Permits are requested for the construction work.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan:

(<http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf>)

Goal A: Create Sustainable Economic Growth for the Port and Beyond

- Goal A: Objective 1: Maximize the use of existing assets.

Goal B: Maintain and Aggressively Grow Core Businesses

- Goal B: Objective 1: Retain existing customers and tenants.

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), apply to this agreement as the tenant employs 21 or more employees working on Port-related work and the tenancy agreement is greater than \$50,000. In addition, for future tenant construction work under this *SUP*, prevailing wage requirements will apply.

ENVIRONMENTAL

The action proposed in this Agenda Report involves executing a *SUP* with Alaska Airlines, Inc. Executing this agreement has been determined to be categorically exempt from the California Environmental Quality Act (CEQA) Guidelines pursuant to Section 15301, Existing Facilities, which exempts the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

OPTIONS

1. Approve the terms and conditions of the *Space/Use Permit* with Alaska Airlines, Inc. as outlined above, and ratify the Executive Director's execution of the standard form *SUP*, thereby permitting Alaska to occupy 8,781± square feet of warehouse space in the Port's Air Cargo Building at Oakland International Airport, and to generate \$16,000 per month in rental revenue. This is the recommended action.
2. Do not approve the terms and conditions of the *Space/Use Permit* as outlined above, with Alaska Airlines, Inc. which would (i) result in Alaska not occupying the additional 4,400± square feet of space in the Port's Air Cargo Building identified as Bay 24, (ii) not allow Alaska to relocate its aircraft line maintenance storage from San Francisco International Airport to Oakland International Airport, (iii) eliminate \$8,000 per month in new revenue from Alaska's occupancy of Bay 24, and (iv) potentially harm the Port's relationship with Alaska, the second busiest airline operating at OAK.
3. Do not ratify execution of and reject the proposed *Space/Use Permit* as outlined above, with Alaska Airlines, Inc., but recommend different terms and conditions.

RECOMMENDATION

It is recommended that the Board adopt an ordinance (i) approving the terms and conditions of the *Space/Use Permit (SUP)* with Alaska Airlines, Inc., and (ii) ratifying the Executive Director's execution of the *SUP*, all subject to the Port Attorney's review and approval as to form and legality, and based on the following:

1. The Term of the *SUP* is five (5) years, expiring March 31, 2020, with the right of either party to terminate upon written 30-day notice.
2. Rental under the *SUP* is \$16,000 per month, subject to annual adjustment based on increases in the Consumer Price Index (rental is never reduced).
3. The *SUP* requires Alaska to provide a performance deposit of \$50,000.