



San Francisco International Airport

MEMORANDUM

November 17, 2015

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

FROM: Airport Director

SUBJECT: Approval of a 2011 Lease and Use Agreement with China Southern Airlines Company Limited

DIRECTOR'S RECOMMENDATION: APPROVE A 2011 LEASE AND USE AGREEMENT WITH CHINA SOUTHERN AIRLINES COMPANY LIMITED AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

China Southern Airlines Company Limited ("China Southern") commenced operations to China in December 2014 under Airline Operating and Space Permit No. 4434. China Southern is requesting to become a signatory airline pursuant to a 2011 Lease and Use Agreement ("2011 Lease"). The 2011 Lease has a term of ten (10) years and continues the current residual rate-setting methodology for terminal rental rates and landing fees based on the Airport's Rates and Charges. Further, the 2011 Lease continues the Annual Service Payment to the City's General Fund. Staff is seeking the Airport Commission's approval of a 2011 Lease with China Southern under these same terms and conditions, except that the term will commence upon full approval by the City and will expire on June 30, 2021.

Background

San Francisco International Airport (the "Airport") and the airlines negotiated the terms and entered into the 2011 Lease, which was effective July 1, 2011, has a term of ten years, and continues the current residual rate-setting methodology for terminal rental rates and landing fees based on the Airport's Rates and Charges.

As of October 2015, of the 47 airlines that were approved by the Airport Commission and Board of Supervisors, 46 airlines have become signatory airlines pursuant to the 2011 Lease. These signatory airlines are listed on Attachment A.

THIS PRINT COVERS CALENDAR ITEM NO. 19

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

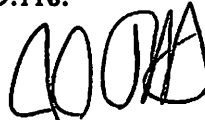
EDWIN M. LEE MAYOR	LARRY MAZZOLA PRESIDENT	LINDA S. CRAYTON VICE PRESIDENT	ELEANOR JOHNS	RICHARD J. GUGGENHIME	PETER A. STERN	JOHN L. MARTIN AIRPORT DIRECTOR
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Proposal

The Airport continues to offer the 2011 Lease to airlines that wish to obtain signatory status at the Airport. China Southern has executed and returned the 2011 Lease containing the same terms and conditions as the 2011 Lease executed by other airlines (as summarized on Attachment B), except that the term of China Southern's 2011 Lease will be approximately five years and six months, becoming effective on the date it is fully approved by the City and expiring on June 30, 2021. China Southern will rent approximately 940 square feet of Category II Exclusive Use Space in the International Terminal and will use the International Terminal Joint Use Spaces and support facilities, as summarized on Attachment C. Fees assessed to China Southern for the Exclusive Use Space, Joint Use Space, and usage of the gates and support facilities will be subject to the Airport's Rates and Charges. Staff is now seeking Commission approval of the 2011 Lease with China Southern, contingent upon approval of the Board of Supervisors.

Recommendation

I recommend adoption of the accompanying resolution that approves the 2011 Lease with China Southern and directs the Commission Secretary to request Board of Supervisors' approval of such 2011 Lease, in accordance with City Charter Section 9.118.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

ATTACHMENT A
Signatories to the 2011 Lease and Use Agreements

Airline Agreement Title	Lease No.	Airline Agreement Title	Lease No.
ABX Air	L11-0005	Hawaiian Airlines	L11-0011
Air Berlin	L11-0006	Japan Airlines	L10-0088
Air Canada	L11-0007	JetBlue Airways	L12-0027
Air Cargo Carriers	L11-0008	Kalitta Air	L10-0277
Air China	L10-0075	KLM Royal Dutch Airlines	L10-0089
Air France	L10-0076	Korean Airlines	L10-0090
Air New Zealand	L11-0009	LAN Peru	L11-0012
Alaska Airlines	L10-0274	Lufthansa German Airlines	L10-0091
All Nippon Airways	L10-0077	MN Airlines, LLC dba Sun Country Airlines	L12-0015
American Airlines	L10-0078	Nippon Cargo Airlines	L10-0278
Ameriflight	L11-0010	Philippine Airlines	L10-0093
Asiana Airlines	L10-0079	Scandinavian Airlines	L13-0066
British Airways	L10-0080	Singapore Airlines	L10-0094
Cathay Pacific Airways	L10-0081	Southern Air	L10-0279
China Airlines	L10-0082	Southwest Airlines	L10-0095
China Eastern	L13-0065	Swiss International Air Lines	L11-0182
Continental Airlines	L10-0275 ¹	TACA	L10-0096
COPA Airlines	L10-0166	United Airlines ²	L10-0097
Delta Air Lines	L10-0083	U.S. Airways	L10-0276
Emirates	L10-0084	Virgin America	L10-0098
EVA Airways	L10-0085	Virgin Atlantic	L10-0099
Federal Express	L10-0086	WestJet	L11-0239
Frontier Airlines	L10-0087	World Airways	L12-0014

Note: Mexicana Lease L10-0092, approved in May 2010 was not activated.

¹ Terminated pursuant to Airport Commission Resolution No. 14-0018 and Board of Supervisors Resolution No. 191-47 due to merger with United Air Lines, Inc.

² Lease originally signed as United Air Lines. Merger with Continental Airlines resulted in new entity known as United Airlines, Inc.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

The 2011 Lease continues many of the provisions of the 1981 Lease and Use Agreement and the 1999 Lease and Operating Agreement, with some important improvements and updates, as summarized below:

TERM

- Ten years, effective July 1, 2011 through June 30, 2021.
- Leases may be terminated by airlines upon certain extraordinary events, such as destruction of the leased space or closure of the Airport.
- Each signatory airline are given a mid-term option to surrender up to 20% of their Exclusive Use Space on July 1, 2016.

ANNUAL SERVICE PAYMENT

The 2011 Lease continues the Airport Commission's payment of the Annual Service Payment to the City's General Fund calculated at 15% of concession revenues.

TYPES OF SPACE

Space shall be leased in the following five categories:

Type	Category
Ticket Counters, Gate Holdrooms	I
Airline Ticket Office (ATO)	II
VIP Clubs and Lounges	II
Other Enclosed Space, Departure Level and above	II
Baggage Claim Lobbies	II
Baggage Service Offices	II
Curbside Check-in	II
Other Enclosed Space, Arrivals Level and below	III
Inbound/Outbound Baggage Handling Areas and Baggage Transfer Areas	IV
Equipment Rooms	IV
Unenclosed or Covered Area - Ramp Level	V

A. Exclusive Use Space – International Terminal

- Each 2011 Lease may include Exclusive Use Space consisting of ATO, baggage service office, ramp operations office, administrative office, VIP clubroom, and/or other support space.

B. Exclusive Use Space – Domestic Terminals

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

- Each 2011 Lease may include Exclusive Use Space consisting of ticket counters, ATO, baggage service office, ramp operations office, administrative office, VIP clubroom, and/or other support space.
- The 2011 Leases will no longer allow gate holdrooms to be leased on an exclusive use basis to airlines. All gate holdrooms in the domestic terminals will be used by airlines on a preferential or common use basis as further described below, thus allowing for the more efficient utilization of Airport resources and the accommodation of new entrants.

C. Joint Use Space

- Each 2011 Lease for space in the International Terminal will continue the current Joint Use structure for all airline-shared operational space, including ticket counters, holdrooms, baggage claim and FIS space, and baggage handling related areas.
- Scheduling of Joint Use Space in the International Terminal will continue to be managed by an airline consortium, in accordance with established protocols, with Airport oversight.
- Ticket counter check-in positions in the International Terminal assigned to each airline will be based on flight activity, in accordance with current Ticket Counter Management Protocols, and be managed by an airline consortium, with Airport oversight.
- Certain 2011 Leases may include a Joint Use structure for designated airline shared operational space in the Airport's Domestic Terminals.

D. Preferential Use Space – Domestic Terminals

- Domestic Terminal gate holdrooms will convert from Exclusive Use Space, under the prior leases, to a Preferential Use Gate system that will be leased to signatory airlines.
- Preferential Use Gates will be assigned annually to signatory airlines for domestic operations based upon their share of all scheduled seats in the previous month of August.
- The 2011 Lease allows the Airport to permit any airline to use a Preferential Use Gate when it is not actively being used by the signatory airline to which it is assigned, thus promoting the efficient utilization of Airport resources and the accommodation of new entrants.

E. Common-Use Gates – All Terminals

- The 2011 Lease will provide the Airport an annual opportunity to designate Common Use Gates for domestic operations in both the Domestic and International Terminals to maintain flexibility. In no event may the number of designated Common Use Gates in Domestic Terminals exceed 10% of the total number of Domestic Terminal gates.

SECURITY DEPOSIT

The 2011 Lease provides for a standardized security deposit requirement of two months of terminal rent and landing fees, instead of the security deposits under prior leases which vary from two to six months.

RENTALS AND FEES

All airlines will pay terminal rent based on square footage for Exclusive Use Space and Preferential Use Space, including ticket counters, gates and support facilities, as well as landing fees in accordance with the Airport's Rates and Charges, as adjusted from fiscal year to fiscal year.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

Terminal rent for Joint Use Space will continue to be charged on the basis of the current Joint Use Formula, with 20% of the charges divided equally among all airlines using each Joint Use Space, and 80% of the charges allocated based on each airline's number of passengers compared to the total number of passengers of all airlines using the Joint Use Space facilities.

Terminal rent for Preferential Use Space will be charged on the basis of the average gate holdroom square footage in the respective boarding area.

Airlines will pay per-use fees for use of Common Use space, such as ticket counters, gates and support facilities. These fees will be reviewed annually in accordance with the Airport's Rates and Charges.

JANITORIAL RESPONSIBILITY

In order to ensure a consistent appearance and uniform level of cleanliness in all public areas, the Airport will assume janitorial responsibility in the Domestic Terminals for all areas in full public view, including gate holdrooms, baggage claim, and Common Use areas. Individual airlines will be relieved of carpet replacement costs in the gate holdrooms and baggage claim areas.

The Airport will continue to provide janitorial service in the International Terminal and cease the "special charge" to the airline consortium as of FY11/12. All costs related to these services will be included within the Airport's Rates and Charges.

NON-SIGNATORY AIRLINES

Any airline that does not sign the 2011 Lease will be considered a non-signatory airline and will be issued the appropriate Operating Permit and/or Space Permit, and be subject to the following impacts:

- A security deposit requirement equal to six months of terminal rental and landing fees.
- A 25% premium on Landing Fees. Non-signatory airlines that are "Affiliate Airlines" of signatory airlines, as defined in the 2011 Lease, will pay the same Landing Fees as signatory airlines.
- Charges for use of terminal space to support passenger operations will be applied in accordance with Common Use fees, as established in the Airport's Rates and Charges.
- Non-signatory airlines will not be eligible to lease Preferential Gates in Domestic Terminals but may be accommodated at such gates if not actively in use by the applicable signatory airline, if Common Use gates are not available.

ATTACHMENT C

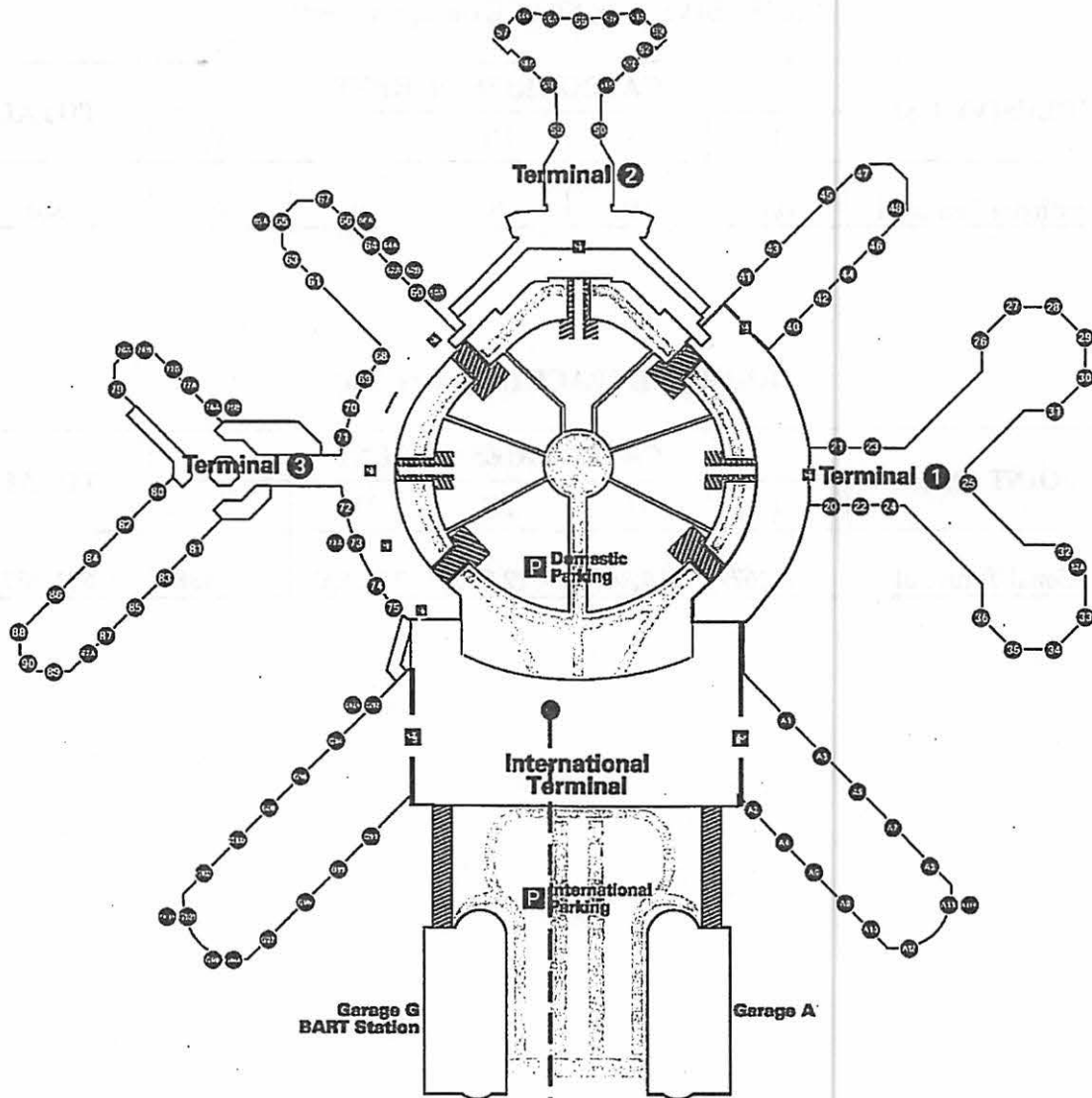
EXCLUSIVE USE SPACE (in square feet)

EXCLUSIVE USE	CATEGORIES OF RENT					TOTAL
	I	II	III	IV	V	
International Terminal	-0-	940	-0-	-0-	-0-	940

JOINT USE SPACE (in square feet)

JOINT USE	CATEGORIES OF RENT					TOTAL
	I	II	III	IV	V	
International Terminal	138,367	214,307	12,025	265,400	1,888	631,987

China Southern Airlines Company Limited
Exclusive Use Space



Approximately 940 square feet of
Category II Exclusive Space