

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 23-0275

AWARD A 2023 LEASE AND USE AGREEMENT TO STARLUX AIRLINES CO., LTD DBA STARLUX AIRLINES NORTH AMERICA, CO. AT SAN FRANCISCO INTERNATIONAL AIRPORT

- WHEREAS, a majority of airlines serving San Francisco International Airport (SFO or Airport) currently operate pursuant to the 2023 Airline Lease and Use Agreement (2023 Lease), which commenced on July 1, 2023 for a ten-year term and replaced the previous 2011 Airline Lease and Use Agreement; and
- WHEREAS, STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. (Airline) will commence flight operations at SFO on December 16, 2023 pursuant to Airline Operating and Space Permit No. 5073; and
- WHEREAS, Airline desires to operate as a Signatory Airline at the Airport by entering into a 2023 Lease on the same terms and conditions as the other 2023 Lease signatories, except that the term will not commence until the first day of the calendar month following the receipt of full approvals of City, and will expire on the same expiration date of June 30, 2033; and
- WHEREAS, on October 6, 2022, the San Francisco Planning Department, Environmental Planning Division determined that the 2023 Lease is exempt from review under the California Environmental Quality Act (CEQA) (Public Resources Code Section 21000, et seq.) and Section 15061(b)(3) of the CEQA Guidelines as a common sense exemption (Planning Department under File No. 2022-09712ENV); now, therefore, be it
- RESOLVED, that this Commission hereby affirms and incorporates, by reference, the Planning Department's determination that the 2023 Lease is exempt from review under CEQA; and, be it further
- RESOLVED, that this Commission awards the 2023 Lease to STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co.; and, be it further
- RESOLVED, that, in order to facilitate the administration of the 2023 Lease, this Commission authorizes the Airport Director to enter into any non-material modifications to the 2023 Lease throughout its term that do not otherwise: (a) materially increase the financial obligations or liabilities of City, (b) increase the term, or (c) change the general use of the demised premises from the permitted uses of the 2023 Lease; and, be it further
- RESOLVED, that the Commission Secretary is hereby directed to forward this 2023 Lease to the Board of Supervisors for approval pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of _____

NOV 21 2023



Secretary

San Francisco International Airport

MEMORANDUM

November 21, 2023

TO: AIRPORT COMMISSION

Hon. Malcolm Yeung, President
 Hon. Everett A. Hewlett, Jr., Vice President
 Hon. Jane Natoli
 Hon. Jose F. Almanza
 Hon. Mark Buell

23-0275

NOV 21 2023

FROM: Airport Director

SUBJECT: Award of the 2023 Lease and Use Agreement to STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. at San Francisco International Airport

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION AWARDING THE 2023 LEASE AND USE AGREEMENT TO STARLUX AIRLINES CO., LTD DBA STARLUX AIRLINES NORTH AMERICA, CO. AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. (Starlux) will commence operations to Taipei, Taiwan on December 16, 2023 pursuant to an Airline Operating and Space Permit. Starlux now desires to sign the 2023 Airline Lease and Use Agreement (2023 Lease). Airport staff and airline representatives from signatory airlines (Signatory Airlines) negotiated the form of the 2023 Lease, which went into effect on July 1, 2023 for a term of 10 years with an expiration date of June 30, 2033. Staff now seeks approval of a 2023 Lease with Starlux under the same terms, except that the lease term will commence on the first day of the month following receipt of full City approvals and terminate on the same expiration date of June 30, 2033.

Background

Airline lease and use agreements generally set the rate-making methodology, gate allocation and operating procedures, and general business and legal terms for the operation of airlines at an airport.

The Airport and Signatory Airlines agreed to the final form of the 2023 Lease in November 2022. All Signatory Airlines execute the same form of 2023 Lease with only conforming changes reflecting the specific Signatory Airline and its demised premises.

THIS PRINT COVERS CALENDAR ITEM NO. 11

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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VICE PRESIDENT

JANE NATOLI

JOSE F. ALMANZA

MARK BUELL

IVAR C. SATERO
AIRPORT DIRECTOR

Members, Airport Commission

-2-

November 21, 2023

Starlux will commence operations to Taipei, Taiwan on December 16, 2023, pursuant to Airline Operating and Space Permit No. 5073 and now desires to become a signatory to the 2023 Lease.

In addition to Landing Fees and Joint Use Fees, Starlux will pay terminal rent for approximately 672 square feet of Category II Exclusive Use Space in the International Terminal.

Proposal

The major terms and conditions of the 2023 Lease are as follows:

- **Term**: Commencing on the first day of the calendar month following receipt of full City approvals and expiring on June 30, 2033.
- **Rate-Making Methodology**: Residual rate-making structure under which Signatory Airlines agree to collectively assume the financial risk of operating at the Airport to the extent the Airport's operating costs are not covered by non-aviation sources of revenue (i.e., concession and ground transportation fees). Each of the Signatory Airlines pays Terminal Area Rentals, Landing Fees, and other usage fees set forth in the Airport Rates and Charges as adopted annually by the Commission.
- **Annual Service Payment**: Annual Service Payment to the City's General Fund, which equals the greater of \$5 million or 15% of Airport concession revenues.
- **Operating Reserve and Capital Improvement Fund**: Operating reserve and capital improvement fund totaling \$800 million over the 10-year term (adjusted for inflation by an agreed-upon index), which may be used only by the Commission for any lawful Airport purposes.
- **Shared Use Equipment**: Commission has the right to install shared use equipment throughout the Airport, including in exclusive use spaces of airlines, which enhances operational efficiency and Commission control over the Airport.
- **Preferential Use Gate Allocation**: Nine-month review period of airline seat capacity for the purposes of allocating Preferential Use Gates, which encourages Preferential Use Gates to be used more consistently year-round.
- **Sustainable Aviation Fuel Working Group**: Airport Director-chaired Sustainable Aviation Fuel Working Group of Airport staff and Signatory Airlines tasked with identifying areas where the parties can cooperate to increase the uptake of sustainable aviation fuel at the Airport.
- **Ground Service Equipment Electrification**: Mutual agreement on a goal to achieve 100% electric-powered ground service equipment at the Airport.

Members, Airport Commission

-3-

November 21, 2023

- Digital Information Working Group: Airport Director-chaired Digital Information Working Group of Airport staff and Signatory Airlines tasked with identifying information on Airport infrastructure and airline operations that could be exchanged in real-time to enhance the efficiency of Airport operations and the guest experience.
- Commercialization of Digital Assets: Airport has the sole and exclusive right to control, manage, and exploit, for commercial and non-commercial purposes, all Airport proprietary content.

The 2023 Lease is offered to all airlines operating at SFO, including incumbents and new entrants, providing the opportunity to maintain or obtain Signatory Airline status at the Airport. Those airlines who forego Signatory Airline status may operate at the Airport by separately entering into a month-to-month operating permit, which requires a 25% premium on landing fees and a higher security deposit requirement.

Staff now seeks Commission award of the 2023 Lease with Starlux, subject to the approval of the Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco.

Environmental Review

On October 6, 2022, the San Francisco Planning Department, Environmental Planning Division determined that the 2023 Lease is exempt from review under the California Environmental Quality Act (CEQA) (Public Resources Code Section 21000, et seq.), and Section 15061(b)(3) of the CEQA Guidelines as a commonsense exemption. This exemption determination is available from the Planning Department under File No. 2022-009712ENV. This action constitutes the Approval Action for the 2023 Leases in the attached Resolution for the purposes of CEQA pursuant to Section 31.04(h) of the San Francisco Administrative Code.

Recommendation

I recommend the adoption of the accompanying Resolution awarding the 2023 Lease to STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. and directing the Commission Secretary to forward the lease for approval by the Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

Prepared by: Kevin Bumen
Chief Financial and Commercial Officer

Attachment