



MEMORANDUM

December 6, 2016

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

FROM: Airport Director

DIRECTOR'S RECOMMENDATION: APPROVE A 2011 LEASE AND USE AGREEMENT WITH REDDING AERO ENTERPRISES, INC. AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Redding Aero Enterprises, Inc. ("Redding Aero"), a cargo only air carrier, commenced operations at the San Francisco International Airport (the "Airport") under Airline Operating and Space Permit No. 4531. Redding Aero now wishes 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, which expires on June 30, 2021, continues the current residual rate-setting methodology for terminal rental rates and landing fees based on the Airport's Rates and Charges, and continues the Annual Service Payment to the City's General Fund. Staff now seeks approval of a 2011 Lease with Redding Aero under the same terms, except that the length of the lease term will be approximately four (4) years and four (4) months commencing upon full City approval.

Background

Effective July 1, 2011, the Airport entered into the 2011 Lease with a majority of the airlines operating at the Airport, which will expire on June 30, 2021. Of the 61 airlines currently operating at the Airport, approximately 80% are signatories to the 2011 Lease (see Attachment A). The major business terms of the 2011 Lease are summarized on Attachment B.

THIS PRINT COVERS CALENDAR ITEM NO. 13

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 IVAR C. SATERO AIRPORT DIRECTOR

Proposal

The Airport continues to offer the 2011 Lease to airlines that wish to obtain signatory status at the Airport. Redding Aero has executed and returned the 2011 Lease containing the same terms and conditions as the 2011 Lease executed by other airlines, except that the term of this 2011 Lease will be approximately four (4) years and four (4) months, becoming effective on the date it is fully approved by the City and expiring on June 30, 2021.

Redding Aero is a cargo only air carrier and will not occupy any exclusive space nor use any joint use space. Staff is seeking Commission approval of a 2011 Lease with Aero Redding contingent upon approval of the Board of Supervisors.

Recommendation

I recommend adoption of the accompanying resolution approving a 2011 Lease with Redding Aero, and directing the Commission Secretary to request Board of Supervisors' approval of such 2011 Lease, in accordance with City Charter Section 9.118.



Ivar C. Satero
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.
ABX Air	L11-0005
Aero Lingus ⁵	Pending
Aeromexico ⁵	Pending
Air Berlin	L11-0006
Air Canada	L11-0007
Air Cargo Carriers	L11-0008
Air China	L10-0075
Air France	L10-0076
Air New Zealand	L11-0009
Alaska Airlines	L10-0274
All Nippon Airways	L10-0077
American Airlines	L10-0078
Ameriflight	L11-0010
Asiana Airlines	L10-0079
British Airways	L10-0080
Cathay Pacific Airways	L10-0081
China Airlines	L10-0082
China Eastern	L13-0065
China Southern	L15-0253
Continental Airlines	L10-0275 ²
COPA Airlines	L10-0166
Delta Air Lines	L10-0083
Emirates	L10-0084
Etihad Airways ⁵	Pending
EVA Airways	L10-0085
Federal Express	L10-0086
Frontier Airlines	L10-0087

Airline Agreement Title	Lease No.
Hawaiian Airlines	L11-0011
Japan Airlines	L10-0088
JetBlue Airways	L12-0027
Kalitta Air	L10-0277
KLM Royal Dutch Airlines	L10-0089
Korean Airlines	L10-0090
LAN Peru	L11-0012
Lufthansa German Airlines	L10-0091
Mexicana Airlines	L10-0092 ¹
MN Airlines, LLC dba Sun Country Airlines	L12-0015
Nippon Cargo Airlines	L10-0278
Qantas Airways	L15-0275
Philippine Airlines	L10-0093
Scandinavian Airlines	L13-0066
Singapore Airlines	L10-0094
Southern Air	L10-0279
Southwest Airlines	L10-0095
Swiss International Air Lines	L11-0182
TACA	L10-0096
Turkish Airlines ⁵	Pending
United Airlines ³	L10-0097
U.S. Airways	L10-0276 ⁴
Virgin America	L10-0098
Virgin Atlantic	L10-0099
WestJet	L11-0239
World Airways	L12-0014

¹ Obtained full City approval but Tenant did not consummate the Lease.

² 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.

³ Lease originally signed as United Air Lines. Merger with Continental Airlines resulted in new entity known as United Airlines, Inc.

⁴ Terminated pursuant to Airport Commission Resolution No. 15-0274 and Board of Supervisors Resolution No. 131-16 due to merger with American Airlines.

⁵ Approved by the Airport Commission on 11/22/16; pending Board of Supervisors approval.

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.

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.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

B. Exclusive Use Space – Domestic Terminals

- 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.