

Airport Lease & Use Agreement

Use of Airline Revenues and Discussion
of Operating Reserve & Capital
Investment Fund (ORCIF)

June 14, 2023

SFO



WHAT ARE THE SOURCES OF AIRLINE REVENUE?

Two Primary Sources of Revenue Paid by Airlines to SFO

Terminal Rent

5 categories of terminal rental rates (\$ per square foot) are set each year

- Most expensive: Ticket counters, holdrooms, service counters, kiosks
- Least expensive: unenclosed space and covered ramp level areas

Landing Fees

Each aircraft is charged an activity-based fee set at a rate per 1,000 pounds of landed weight

HOW AIRLINE REVENUES ARE USED

Under Airport's "breakeven" financial framework in the 2023 Lease & Use Agreement:

Total Revenue

Airline Revenue +
Non-Airline Revenue
(e.g., concessions, parking)

Total Expenses

O&M + Debt Service +
Deposits to Operating Revenue & Capital
Investment Fund (ORCIF)

- To breakeven, Total Annual Revenue is set to equal Total Annual Expenses by adjusting the amount of airline revenue required each year
 - \$6.0 Billion in airline revenues (over 10 years) from the initial group of 40 airlines will be combined with revenue from other airlines and non-airline revenue to yield Total Revenue
 - Total Revenue will pay O&M, Debt Service and ORCIF deposits over the 10-year term of the lease agreement

\$6.1 BILLION IN REVENUE FROM 40 SIGNATORY AIRLINES OVER 10-YEAR LEASE TERM

Fiscal Year	Terminal Area Rental Revenue	Landing Fees	Total Lease Revenue	Annual Percent Change
FY 2023-24	\$283,070,971	\$217,443,856	\$500,514,827	
FY 2024-25	297,856,096	230,664,442	528,520,538	6%
FY 2025-26	312,526,623	242,336,064	554,862,687	5%
FY 2026-27	327,807,755	252,126,441	579,934,196	5%
FY 2027-28	339,703,578	262,312,349	602,015,927	4%
FY 2028-29	349,946,602	270,234,181	620,180,784	3%
FY 2029-30	360,455,258	278,395,254	638,850,513	3%
FY 2030-31	371,279,173	286,802,790	658,081,963	3%
FY 2031-32	382,427,805	295,464,235	677,892,040	3%
FY 2032-33	393,910,897	304,387,256	698,298,154	3%
Total	\$3,418,984,758	\$2,640,166,870	\$6,059,151,628	

OPERATING RESERVE AND CAPITAL INVESTMENT FUND

Background: Under the Airport's "traditional" breakeven financial framework (dating to 1981):

Virtually all capital investments were required to be bond financed or grant-funded

- This kept near-term costs lower, but increased future costs compared to cash-funding some portion of the Airport's capital improvements

Airport retained limited amount of liquidity (days cash on hand)

- Days cash on hand is a key measure of financial health, but airports using a breakeven financial structure usually accept lower liquidity

OPERATING RESERVE AND CAPITAL INVESTMENT FUND

Purpose of ORCIF - Create a Fund that provides the Airport with:

Ability to Cash-Fund Capital Projects

A major funding source for capital investments that supplements the Airport's bond financing program

Improved Financial Stability

Ability to stabilize airline rates & charges and to meet unforeseen operating needs
(increasing days cash on hand)

USES OF ORCIF

- **“Any lawful airport purpose”**
 - Funds can be used for Airport operating, maintenance and capital investment purposes
 - Language complies with FAA requirements regarding using airport revenue only for airport purposes
- **Most likely use is to invest in capital projects without requiring Airport to issue bonds**
 - Lower long-term cost
 - Types of possible capital investment projects:
 - ✓ Real estate acquisitions near the airport, which may require faster execution than would be feasible if a bond financing were required
 - ✓ Projects that could increase non-airline revenue
- In addition, the available balance in the ORCIF helps protect the Airport’s competitive position by providing a source for **airline rate stabilization**, if it is ever needed

HOW ORCIF FUNDS WILL BE DISBURSED

ORCIF funding and uses are to be included in Airport's Two-Year Budget

- Internal capital project review process will be used to identify capital projects that may be appropriate to be funded with ORCIF rather than bond funds, such as real estate acquisition
 - Identification of projects and uses will need an internal "Finance Committee" review to ensure that projects could increase non-airline revenue or aviation operational efficiency. The "Finance Committee" will make recommendations to the Airport Director regarding the use of the ORCIF funding
- Airlines will have a Majority-In-Interest review of ORCIF funding projects as specified in the Lease and Use Agreement for capital projects.

Potential Projects for ORCIF Funds

- **Property acquisition to build and operate an offsite catering facility for airlines serving SFO**
- **Property acquisition to build an SFO Academy**
 - Potential uses can be a site to restart the Airframe and Powerplant license program formerly run by City College San Francisco
 - An SFO training center can be a location to introduce young students to careers in aviation
 - A location to hold Civil Service Exams for the trades
 - Training center for SFO staff and tenants
- **Purchase of a Point-of-Sale system for all concessions so SFO management can run real-time revenue reports on the purchase of goods and services**
- **Development of passenger amenities such as an on-airport gas station and convenience store for arriving and departing rental car customers**

