



**MEMORANDUM**

January 16, 2018

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

SUBJECT: Approval of a 2011 Lease and Use Agreement with Hong Kong Airlines Limited

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

**Executive Summary**

On March 25, 2018, Hong Kong Airlines Limited ("Hong Kong Airlines") will commence operations at San Francisco International Airport ("SFO" or the "Airport") under Airline Operating and Space Permit No. 4668. Hong Kong Airlines wishes to become a signatory airline pursuant to a 2011 Lease and Use Agreement ("2011 Lease"). The 2011 Lease has a term of 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 seeks the Commission's approval of a 2011 Lease with Hong Kong Airlines under the same terms, except that the length of the lease term will be approximately three years and three 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 60 air carriers currently operating at the Airport, approximately 78% 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

LARRY MAZZOLA  
PRESIDENT

LINDA S. CRAYTON  
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

IVAR C. SATERO  
AIRPORT DIRECTOR

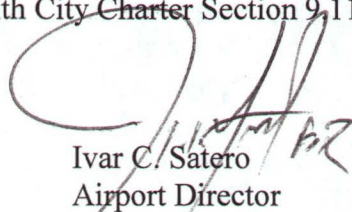
**Proposal**

The Airport continues to offer the 2011 Lease to airlines that wish to obtain signatory status at the Airport. Hong Kong Airlines 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 Hong Kong Airlines' 2011 Lease will be approximately three years and three months, becoming effective upon full City approval and expiring on June 30, 2021.

Hong Kong Airlines will rent approximately 900 square feet of exclusive space and will use the International Terminal Joint Use Spaces and support facilities, as summarized on Attachment C. These spaces are subject to the Airport's Rates and Charges. Staff is now seeking Commission approval of a 2011 Lease with Hong Kong Airlines, contingent upon approval of the Board of Supervisors.

**Recommendation**

I recommend that this Commission adopts the attached resolution approving a 2011 Lease with Hong Kong Airlines, 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 Agreement

AIR CARRIER	LEASE NO.	AIR CARRIER	LEASE NO.
1 ABX Air	L11-0005	31 KLM Royal Dutch Airlines	L10-0089
2 Air Berlin	L11-0006 <sup>1</sup>	32 Korean Airlines	L10-0090
3 Aer Lingus	L16-0298	33 LAN Peru	L11-0012 <sup>3</sup>
4 Air Canada	L11-0007	34 Lufthansa German Airlines	L10-0091
5 Air Cargo Carriers, LLC	L11-0008	35 Mexicana Airlines	L10-0092 <sup>4</sup>
6 Air China	L10-0075	36 MN Airlines, LLC dba Sun Country	L12-0015
7 Air France	L10-0076	37 Nippon Cargo Airlines	L10-0278
8 Air New Zealand	L11-0009	38 Philippine Airlines	L10-0093
9 Air Pacific dba Fiji Airways	L17-0184	39 Qantas Airways	L15-0275
10 Alaska Airlines	L10-0274	40 Redding Aero	L16-0326
11 All Nippon Airways	L10-0077	41 Scandinavian Airlines	L13-0066
12 American Airlines	L10-0078	42 Singapore Airlines	L10-0094
13 Ameriflight	L11-0010	43 Southern Air	L10-0279
14 Asiana Airlines	L10-0079	44 Southwest Airlines	L10-0095
15 British Airways	L10-0080	45 Swiss International Air Lines	L11-0182
16 Cathay Pacific Airways	L10-0081	46 TACA	L10-0096
17 China Airlines	L10-0082	47 Turkish	L16-0301
18 China Eastern	L13-0065	48 United Airlines	L10-0097
19 China Southern	L15-0253	49 U.S. Airways	L10-0276 <sup>5</sup>
20 Continental	L10-0275 <sup>2</sup>	50 Virgin America	L10-0098
21 COPA Airlines	L15-0166	51 Virgin Atlantic	L10-0099
22 Delta Air Lines	L10-0083	52 WestJet	L11-0239
23 Emirates	L10-0084	53 World Airways, Inc.	L12-0014 <sup>6</sup>
24 EVA Airways	L10-0085		
25 Federal Express	L10-0086		
26 Frontier Airlines	L10-0087		
27 Hawaiian Airlines	L11-0011		
28 Japan Airlines	L10-0088		
29 Jet Blue	L12-0027		
30 Kalitta Air	L10-0277		

<sup>1</sup> Agreement active; airline declared bankruptcy; ceased operations at SFO on 10/15/17

<sup>2</sup> Lease terminated; Now part of United Airlines

<sup>3</sup> Agreement active; airline non-operational at SFO

<sup>4</sup> Obtained full City approval but did not consummate Lease

<sup>5</sup> Lease terminated; now part of American Airlines

<sup>6</sup> Agreement active; airline no longer in business

## 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.

#### 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.

## ATTACHMENT B

### Basic Provisions of 2011 Lease & Use Agreement

- 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

## **ATTACHMENT B**

### **Basic Provisions of 2011 Lease & Use Agreement**

fees in accordance with the Airport's Rates and Charges, as adjusted from fiscal year to fiscal year.

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**

**Premises**

**EXCLUSIVE USE SPACE IN THE INTERNATIONAL TERMINAL  
(in square feet)**

	<b>CATEGORIES OF RENT</b>					<b>TOTAL</b>
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	
International Terminal	-0-	900	-0-	-0-	-0-	<b>900</b>

**JOINT USE SPACE IN THE INTERNATIONAL TERMINAL  
(in square feet)**

	<b>CATEGORIES OF RENT</b>					<b>TOTAL</b>
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	
International Terminal	133,794	214,307	12,025	265,400	1,888	<b>627,414</b>

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 18-0015

**APPROVAL OF A 2011 LEASE AND USE AGREEMENT WITH HONG KONG AIRLINES LIMITED FOR OPERATING RIGHTS AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL**

WHEREAS, Hong Kong Airlines Limited (“Hong Kong Airlines”) will conduct flight operations at San Francisco International Airport (“Airport”), commencing March 25, 2018, pursuant to Airline Operating and Space Permit No. 4668; and

WHEREAS, Hong Kong Airlines wishes to become a signatory airline at the Airport pursuant to a 2011 Lease and Use Agreement (“2011 Lease”), a lease comparable to the 2011 Leases that were previously approved for 54 other airlines; and

WHEREAS, as initially approved in March 2010, the 2011 Lease has a term of 10 years, expiring on June 30, 2021, and provides for terminal rent and landing fees in accordance with the Airport’s Rates and Charges; and

WHEREAS, the Airport Commission of the City and County of San Francisco (“City”) and Hong Kong Airlines now desire to enter into a 2011 Lease under the same terms and conditions, except that the term will be approximately three years and three months, with the exact term dependent upon full approval of the 2011 Lease by the City; and

WHEREAS, in order to facilitate the implementation of the 2011 Lease and the placement in service of new facilities, the Commission desires to authorize the Airport Director to enter into non-material modifications to the 2011 Lease, including changes to the demised premises not to exceed 10% of leased square footage, that the Airport Director determines, in consultation with the City Attorney, are in the best interests of the Commission, do not otherwise materially increase the obligations or liabilities of the Commission, are necessary or advisable to effectuate the purposes of the 2011 Lease or this Resolution, and are in compliance with all applicable laws, including City’s Charter; now, therefore, be it

RESOLVED, that this Commission approves the 2011 Lease between Hong Kong Airlines and the City consistent with the terms of the attached memorandum, subject to Hong Kong Airlines’ compliance with Chapter 12B of the City’s Administrative Code and other City contracting requirements or obtaining the appropriate waivers thereto, as applicable; and, be it further

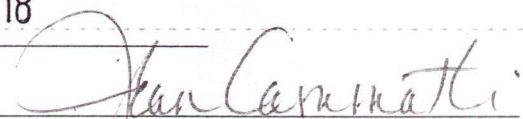
RESOLVED, that this Commission authorizes the Airport Director to execute said 2011 Lease and to enter into any non-material modifications thereto, including changes to the demised premises of not to exceed 10% of leased square footage, as described above; and, be it further

RESOLVED, that the Commission Secretary is hereby directed to request Board of Supervisors’ approval of said 2011 Lease with Hong Kong Airlines Limited pursuant to City Charter Section 9.118.

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

— JAN 16 2018

at its meeting of \_\_\_\_\_

  
Secretary