



San Francisco International Airport

MEMORANDUM

August 15, 2023

23-0190

THROUGH

23-0196

= AUG 15 2023

TO: AIRPORT COMMISSION
Hon. Malcolm Yeung, President
Hon. Everett A. Hewlett, Jr., Vice President
Hon. Jane Natoli
Hon. Jose F. Almanza

FROM: Airport Director

SUBJECT: Award of the 2023 Lease and Use Agreement with Certain Airlines Operating at San Francisco International Airport

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTIONS AWARDING THE 2023 LEASE AND USE AGREEMENT TO CERTAIN AIRLINES AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASES TO THE BOARD OF SUPERVISORS FOR APPROVAL UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

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 replaced the previous 2011 Airline Lease and Use Agreement (2011 Lease). Airport staff and airline representatives from the intended 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 each of the additional Airlines listed in Attachment 1 to this Memorandum, 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. In December 2019, Airport staff and Signatory Airlines began negotiations for a new lease and use agreement to replace the 2011 Lease, originally set to expire on June 30, 2021. As a result of the COVID-19 pandemic, the parties determined that continuing negotiations at that time was impractical given the emergency conditions facing the Airport and Signatory Airlines.

THIS PRINT COVERS CALENDAR ITEM NO. _____

6

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED
MAYOR

MALCOLM YEUNG
PRESIDENT

EVERETT A. HEWLETT, JR.
VICE PRESIDENT

JANE NATOLI

JOSE F. ALMANZA

IVAR C. SATERO
AIRPORT DIRECTOR

Staff requested and the Commission approved modifications of the 2011 Lease providing for a two-year extension of the term, for a new expiration date of June 30, 2023.

The Airport and Signatory Airlines subsequently resumed negotiations and agreed to the terms of the 2023 Lease in July 2022 and on the final form of the 2023 Lease in November 2022. All Signatory Airlines executed the same form of 2023 Lease, with only conforming changes reflecting the specific Signatory Airline and its demised premises.

Proposal

The 2023 Lease largely builds on the terms of the 2011 Lease with some significant financial and operational improvements for the Airport. 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**: Retention of the existing financial 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**: Retention of the Airport's 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**: Establishment of an 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**: Enhanced rights of the Commission 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**: Expanded review period of airline seat capacity for the purposes of allocating Preferential Use Gates, which will encourage Preferential Use Gates to be used more consistently year-round.

- Gate Accommodations: Enhanced rights of the City to accommodate flights at Preferential Use Gates of Signatory Airlines, which maximizes the use of a gate and, in turn, the efficiency and capacity of the Airport.
- Sustainable Aviation Fuel Working Group: Establishment of an 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.
- Airline Relocation Costs: Clarification on the financial liability for airline relocations. An airline initiating its relocation within the Airport will be responsible for such move and any required secondary relocations of other airlines, while any relocation initiated by the Airport will be the responsibility of the Airport, subject to recovery through rates and charges.
- Digital Information Working Group: Establishment of an 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: Express acknowledgment by the Signatory Airlines that the Airport has the sole and exclusive right to control, manage, and exploit, for commercial and non-commercial purposes, all Airport Proprietary Content.

Insurance and indemnification obligations of the Signatory Airlines, as well as all City contracting provisions, have been revised to comply with current City requirements. All other terms and conditions of the 2023 Lease are substantially similar to those in the 2011 Lease.

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. On February 7, 2023 and March 21, 2023, this Commission approved the 2023 Lease with a combined 40 air carriers.

Staff now seeks Commission award of the 2023 Lease with each of the airlines listed in Attachment 1, subject to the approval of the Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco. The 2023 Leases executed by airlines after

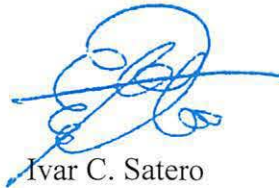
those awarded today will be brought forward for the Commission and the Board of Supervisors' approvals at various intervals in the future.

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 all of the 2023 Leases in the attached Resolutions for the purposes of CEQA pursuant to Section 31.04(h) of the San Francisco Administrative Code.

Recommendation

I recommend adoption of the accompanying Resolutions awarding the 2023 Lease to each of the airlines listed in Attachment 1 and directing the Commission Secretary to forward the leases 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

Attachments

ATTACHMENT 1

Signatory Airlines to the 2023 Lease and Use Agreement for Airport Commission Approval

1. Aer Lingus Limited
2. Flair Airlines Ltd.
3. Hawaiian Airlines, Inc.
4. JetBlue Airways Corporation
5. Qatar Airways Group Q.C.S.C.
6. Transportes Aereos Portugueses, S.A. dba TAP Air Portugal
7. ZIPAIR Tokyo, Inc.