

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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January 26, 2024

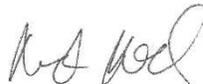
TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: January 31, 2024 Budget and Finance Committee Meeting

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Items 5 & 6 Files 23-1038, 24-0011	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would approve the 2023 Lease and Use Agreement (2023 Lease) between the San Francisco International Airport (Airport) and the following eight airlines: (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. (File 23-1038); and (8) STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. (File 24-0011), affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA), and authorize the Airport Director to enter into further immaterial modifications to the lease. <p>Key Points</p> <ul style="list-style-type: none"> • In 2022, the Airport negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines. 20 other airlines that did not sign onto the 2023 Lease operate under operating permits, which requires a 25 percent premium on landing fees and a higher security deposit compared to signatory airlines. The 2023 Lease retains the 2011 Lease’s residual rate setting methodology, which adjusts rental rates, landing fees, and related fees annually such that the total amount of airline revenues received by the Airport, together with non-airline revenues (such as concessions and parking), is equal to total Airport costs, including debt service and operating costs. • Eight airlines that did not initially sign onto the 2023 Lease have now signed on. In August 2023, the Airport Commission approved the 2023 Lease with seven airlines. In November 2023, the Airport Commission approved the 2023 Lease with STARLUX Airlines. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Over the 10-year term of the lease, the Airport anticipates total revenue of approximately \$367.1 million between the eight airlines. This includes approximately \$207.9 million in rental revenue and \$159.2 million in landing fees. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

Section 2A.173 of the City’s Administrative Code authorizes the Airport to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2022, the San Francisco International Airport (Airport) negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines (Files 23-0204, 23-0342). 20 other airlines that did not sign onto the 2023 Lease operate under operating permits, which requires a 25 percent premium on landing fees and a higher security deposit compared to signatory airlines. The 2023 Lease retains the 2011 Lease’s residual rate setting methodology, which adjusts rental rates, landing fees, and related fees annually such that the total amount of airline revenues received by the Airport, together with non-airline revenues (such as concessions and parking), is equal to total Airport costs, including debt service and operating costs.

Eight airlines that did not initially sign onto the 2023 Lease have now signed on.¹ In August 2023, the Airport Commission approved the 2023 Lease with seven airlines. In November 2023, the Airport Commission approved the 2023 Lease with STARLUX Airlines.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution in File 23-1038 would approve the 2023 Lease between the San Francisco International Airport (Airport) and the following seven airlines: (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; and (7) ZIPAIR Tokyo, Inc. The proposed resolution in File 24-0011 would approve the 2023 Lease with STARLUX Airlines Co., LTD dba STARLUX Airlines North America, Co. The proposed resolutions would also affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA) and authorize the Airport Director to make further immaterial amendments to the lease.

The key terms of the 2023 Lease are shown in Exhibit 1 below.

¹ According to Senior Property Manager Murphy, these airlines required more time to consider the business case of become Signatory airlines to the 2023 Lease and/or to obtain legal and executive approvals.

Exhibit 1: Key Terms of 2023 Lease

Term	Approximately 9 years and 6 months, from the first month following full approvals of the lease through June 2033
Rate-Making Methodology	Existing residual rate setting methodology is maintained. Signatory airlines pay terminal area rentals, landing fees, and other usage fees, which are adjusted annually by the Airport Commission to ensure that total airline and non-airline revenues are equal to total Airport costs, including debt service.
Annual Service Payment	Existing Airport Annual Service Payment to the City’s General Fund is maintained at the greater of \$5 million or 15% of Airport concession revenues.
Operating Reserve and Capital Improvement Fund	Establishes an operating reserve and capital improvement fund totaling \$800 million over the 10-year term and adjusted annually for inflation.
Shared Use Equipment	Expands rights of the Airport Commission to install shared use equipment throughout the Airport, including in exclusive use spaces of airlines, to enhance operational efficiency.
Preferential Use Gate Allocation	Expands review period of airline seat capacity to allocate preferential use gates to encourage consistent use of preferential use gates throughout the year.
Gate Accommodations	Enhances rights of the City to accommodate flights at preferential use gates of signatory airlines to maximize the use of a gate and capacity and efficiency of the Airport.
Sustainable Aviation Fuel Working Group	Establishes a Sustainable Aviation Fuel Working Group of Airport staff and signatory airlines, chaired by the Airport Director, that would determine how the parties can cooperate to increase the uptake of sustainable aviation fuel at the Airport.
Ground Service Equipment Electrification	Establishes a mutual goal to achieve 100% electric-powered ground service equipment at the Airport.
Airline Relocation Costs	Clarifies financial liability for airline relocations. If an airline initiates its relocation within the Airport, that airline is financially responsible for the move and for any required secondary relocations of other airlines. If the Airport initiates relocation of an airline, the Airport is financially responsible, subject to rate recovery under the lease.
Digital Information Working Group	Establishes a Digital Information Working Group chaired by the Airport Director and consisting of Airport staff and signatory airlines that will identify data on airport infrastructure and airline operations that could be exchanged to enhance Airport operations and improve the experience of Airport guests.
Commercialization of Digital Assets	Acknowledgment that the Airport has the sole and exclusive right to control, manage, and utilize all Airport Proprietary Content.

Source: Airport staff memo to Airport Commission.

FISCAL IMPACT

Over the 10-year term of the lease, the Airport anticipates total revenue of approximately \$367.1 million between the eight airlines, as shown in Exhibit 2 below.

Exhibit 2: Projected Revenues by Fiscal Year

Fiscal Year	Rental Revenue	Landing Fees	Total Revenue	Annual % Change
FY 2023-24	\$13,012,465	\$11,432,482	\$24,444,947	-
FY 2024-25	16,103,982	13,783,980	29,887,961	22.3%
FY 2025-26	18,624,627	15,466,352	34,090,979	14.1%
FY 2026-27	19,277,192	14,758,991	34,036,183	-0.2%
FY 2027-28	21,851,836	16,039,888	37,891,723	11.3%
FY 2028-29	22,478,860	16,521,085	38,999,945	2.9%
FY 2029-30	23,120,390	17,016,717	40,137,106	2.9%
FY 2030-31	23,781,164	17,527,218	41,308,382	2.9%
FY 2031-32	24,461,763	18,053,035	42,514,798	2.9%
FY 2032-33	25,162,779	18,594,625	43,757,404	2.9%
Total	\$207,875,057	\$159,194,371	\$367,069,429	

Source: Airport. FY 2023-24 revenues are projected for the full fiscal year.

According to Sean Murphy, Airport Senior Property Manager, Airport finance staff anticipates an increase in non-airline revenues in FY 2026-27, which allows for reductions to airline revenues. Projected 10-year revenues by airline are shown in Exhibit 3 below.

Exhibit 3: Projected 10-Year Revenues by Airline

Airline	Rental Revenue	Landing Fees	Total Revenue
Aer Lingus	\$21,413,942	\$12,056,535	\$33,470,477
Flair	2,474,340	3,172,535	5,646,875
Hawaiian	8,471,250	25,013,325	33,484,575
JetBlue	34,872,429	75,164,312	110,036,741
Qatar Airways	49,203,127	15,602,914	64,806,040
TAP Air Portugal	27,024,452	5,960,806	32,985,258
ZIPAIR Tokyo	30,549,239	8,353,642	38,902,881
Starlux	33,866,279	13,870,303	47,736,582
Total	\$207,875,057	\$159,194,371	\$367,069,429

Source: Airport

RECOMMENDATION

Approve the proposed resolutions.