

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 19-0187

APPROVAL OF MODIFICATION NO. 1 TO THE ALASKA AIRLINES, INC. 2011 LEASE AND USE AGREEMENT NO. L10-0274 TO INCORPORATE TERMINAL SPACE FORMERLY OCCUPIED BY VIRGIN AMERICA INC. IN TERMINAL 2 INTO THE ALASKA LEASE AGREEMENT

WHEREAS, effective July 1, 2011, Alaska Airlines, Inc. (“Alaska”) became a signatory to the 2011 Lease and Use Agreement No. L10-0274 (the “Alaska Lease”), which expires on June 30, 2021; and

WHEREAS, effective July 1, 2011, Virgin America, Inc. (“Virgin”) became a signatory to the 2011 Lease and Use Agreement No. L10-0098 (the “Virgin Lease”), which expires on June 30, 2021; and

WHEREAS, on March 30, 2018, Alaska notified the San Francisco International Airport of its plan to acquire and merge with Virgin (the “Merger”); and

WHEREAS, on January 11, 2018, the Federal Aviation Administration issued a single operating certificate for Alaska and Virgin, and on April 26, 2018, Alaska and Virgin consolidated their respective passenger check-in functions in Terminal 2, and ceased all flights nationwide under the Virgin brand; and

WHEREAS, on July 20, 2018, Alaska and Virgin finalized the Merger, with Alaska becoming the successor company by merger with Virgin; and

WHEREAS, under the Alaska Lease, Alaska occupies Exclusive Use Space comprised of approximately 6,656 square feet in Terminal 2 and approximately 3,771 square feet in the International Terminal; and

WHEREAS, also under the Alaska Lease, Alaska occupies Joint Use Space comprised of approximately 205,771 square feet in the International Terminal and approximately 91,963 square feet of Joint Use Space in Terminal 2; and

WHEREAS, in connection with the merger, Alaska is now seeking Airport Commission approval to incorporate approximately 12,696 square feet of Exclusive Use Space previously occupied by Virgin in Terminal 2, which is comprised of approximately 9,232 square feet under the Virgin Lease and approximately 3,464 square feet under Airline Terminal Space and Use Permit P4265 (the “Virgin Permit”); and

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WHEREAS, pursuant to Modification No. 1 to the Virgin Lease, Virgin will relinquish all Exclusive Use Space and Joint Use Space under the Virgin Lease, and pursuant to a corresponding Modification No. 1 the Alaska Lease, the aforementioned space under the Virgin Lease and the Virgin Permit will be incorporated into the demised premises under the Alaska Lease, conditioned upon concurrent approval by Commission; now, therefore, be it

RESOLVED, that the Airport Commission hereby approves Modification No. 1 to the Alaska 2011 Lease and Use Agreement No. L10-0274, which modifies the demised premises by the addition of approximately 12,696 square feet of Exclusive Use Space in Terminal 2; and, be it further

RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward Modification No. 1 to the Alaska Lease to the Board of Supervisors for approval pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of _____ **AUG 27 2019** _____


Secretary



MEMORANDUM

August 27, 2019

19-0186

19-0187

AUG 27 2019

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenlime
Hon. Malcolm Yeung

FROM: Airport Director

SUBJECT: Modification No. 1 to the Virgin America, Inc. 2011 Lease and Use Agreement No. L10-0098 to Terminate the Lease Agreement, and Modification No. 1 to the Alaska Airlines, Inc. 2011 Lease and Use Agreement No. L10-0274 to Incorporate Space Formerly Occupied by Virgin America, Inc. in Terminal 2

DIRECTOR'S RECOMMENDATION: ADOPT CONCURRENT RESOLUTIONS APPROVING: 1) MODIFICATION NO. 1 TO THE VIRGIN AMERICA, INC. 2011 LEASE AND USE AGREEMENT NO. L10-0098, WHICH GRANTS EARLY TERMINATION OF THE LEASE AGREEMENT, AND 2) MODIFICATION NO. 1 TO THE ALASKA AIRLINES, INC. 2011 LEASE AND USE AGREEMENT NO. L10-0274 TO INCORPORATE TERMINAL SPACE FORMERLY OCCUPIED BY VIRGIN AMERICA, INC. IN TERMINAL 2 INTO ALASKA AIRLINES' LEASE AGREEMENT.

Executive Summary

On March 30, 2018, Alaska Airlines, Inc. ("Alaska") notified the San Francisco International Airport (the "Airport" or "City") of its plan to acquire and merge with Virgin America, Inc. ("Virgin"). The Federal Aviation Administration (FAA) had issued a single operating certificate for Alaska and Virgin on January 11, 2018 and the merger was finalized on July 20, 2018, with Alaska becoming the successor company by merger with Virgin. Alaska has requested Airport Commission ("Commission") approval of: 1) an early termination of the Virgin 2011 Lease and Use Agreement No. L10-0098 (the "Virgin Lease") pursuant to Modification No. 1 to the Virgin Lease, and 2) a modification to the Alaska 2011 Lease and Use Agreement No. L10-0274 (the "Alaska Lease") wherein all terminal space occupied by Virgin in Terminal 2 will be incorporated into the demised premises of the Alaska Lease pursuant to Modification No. 1 to the Alaska Lease. Staff is seeking concurrent approvals.

THIS PRINT COVERS CALENDAR ITEM NO. 6

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR LARRY MAZZOLA PRESIDENT LINDA S. CRAYTON VICE PRESIDENT ELEANOR JOHNS RICHARD J. GUGGENHIME MALCOLM YEUNG IVAR C. SATERO AIRPORT DIRECTOR

Background

Pursuant to Commission Resolution No. 10-0098, dated March 16, 2010, and Board of Supervisors Resolution No. 208-10, dated May 21, 2010, Virgin became a signatory to the 2011 Lease and Use Agreement whereby, effective July 1, 2011, Virgin entered into a lease agreement with the City for a term of ten years with landing rights and rental of approximately 9,952 square feet of Exclusive Use Space and approximately 91,963 square feet of Joint Use Space in Terminal 2. Over the term, two adjustments were made to the Exclusive Use Space pursuant to Space Change Summary Notices, Exhibit L No. 1 and No. 2, with the current Exclusive Use Space totaling approximately 9,232 square feet. The rent in Fiscal Year 2018/19 for the Exclusive Use Space and Joint Use Space was \$6,982,362.72, of which \$1,559,209.80 was for the Exclusive Use Space. Virgin also occupies approximately 3,464 square feet of space in Terminal 2 under Airline Terminal Space and Use Permit P4265 (the “Virgin Permit”).

Pursuant to Commission Resolution No. 10-0274, dated August 17, 2010, and Board of Supervisors Resolution No. 505-10, dated November 5, 2010, Alaska became a signatory to the 2011 Lease and Use Agreement whereby Alaska entered into a lease agreement with the City for a term of ten years for landing rights and rental of approximately 47,509 square feet of Exclusive Use Space and approximately 78,747 square feet of Joint Use Space in Terminal 1. At the Airport’s request, Alaska temporarily relocated to the International Terminal to accommodate the Terminal 1 Renovation Project, occupying approximately 6,262 square feet of Exclusive Use Space and approximately 205,771 square feet of Joint Use Space pursuant to Space Change Summary Notice, Exhibit L No 1. Due to the merger with Virgin, Alaska undertook a phased relocation of its flight operations to Terminal 2 over the period of April 2017 to April 2019, while retaining some operational space in the International Terminal. In May 2017, Alaska also started to occupy Joint Use Space in Terminal 2 as part of its phased relocation to that terminal. The initial Terminal 2 space occupied by Alaska was approximately 5,255 square feet of Exclusive Use Space, but has since increased to approximately 10,427 square feet pursuant to four Space Change Summary Notices, Exhibit L Nos. 2 through 4. The rent in Fiscal Year 2018/19 for the Exclusive Use Space and Joint Use Space was \$4,354,447.60, of which \$1,644,902.04 was for the Exclusive Use Space.

On March 30, 2018, Alaska formally notified the Airport of its plan to acquire and merge with Virgin, both of which are signatories to the 2011 Lease and Use Agreement. The FAA had issued a single operating certificate for Alaska and Virgin on January 11, 2018. On April 26, 2018, Virgin and Alaska consolidated their respective passenger check-in functions in Terminal 2, and ceased all flights nationwide under the Virgin brand. The parties finalized the merger on July 20, 2018, with Alaska being the successor company by merger with Virgin.

Proposal

Alaska has requested Commission approval of an early termination of the Virgin Lease, in its entirety, pursuant to Modification No. 1 (the “Virgin Modification”). Alaska also wishes to modify the demised premises under the Alaska Lease, wherein all terminal space occupied under the Virgin Lease and the Virgin Permit will be incorporated into the demised premises pursuant to Modification No. 1 (the “Alaska Modification”). The Exclusive Use Space to be incorporated into the demised premises under the Alaska Lease is as follows:

EXCLUSIVE USE SPACE				
Category Type	Terminal	Exclusive Use Space <i>Pre Modification</i>	Exclusive Use Space Added from Virgin Lease and Virgin Permit	Exclusive Use Space <i>Post Modification</i>
Category I	2	1,103	977	2,080
Category II	2	959	816	1,775
Category III	2	4,594	9,703	14,297
Category IV	2	0	0	0
Category V	2	0	1,200	1,200
Category I	International	0	0	0
Category II	International	0	0	0
Category III	International	1,938	0	1,938
Category IV	International	1,403	0	1,403
Category V	International	430	0	430

The Joint Use Space to be occupied under the Alaska Lease is as follows:

JOINT USE SPACE				
Category Type	Terminal	Joint Use Space <i>Pre Modification</i>	Joint Use Space Added	Joint Use <i>Post Modification</i>
Category II	2	13,006	0	13,006
Category IV	2	78,957	0	78,957
Category II	International	205,711	0	205,771

Alaska is seeking Commission approval of the Virgin Modification and the Alaska Modification to be effective on the first day of the month following full satisfaction of the following conditions:

1. The Airport Commission and Board of Supervisors shall have approved the Virgin Modification;
2. The Airport Commission and Board of Supervisors shall have approved the Alaska Modification;
3. The parties shall have executed both modifications; and
4. Virgin's obligations under those terms of the Virgin Lease that expressly survive expiration or termination shall continue in full force and effect against Alaska, successor company by merger with Virgin.

Recommendation

I recommend concurrent adoption of the accompanying resolutions which approve: 1) Modification No. 1 to the Virgin Lease, which grants early termination of the Virgin Lease, and 2) Modification No. 1 to the Alaska Lease, which incorporates the Exclusive Use Space and Joint Use Space occupied under the Virgin Lease and Virgin Permit into the demised premises under the Alaska Lease, and direct the Commission Secretary to forward the proposed Virgin Modification and the Alaska Modification to the Board of Supervisors for approval.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business & Finance Officer

Attachments

EXHIBIT A

Combined Virgin and Alaska Locations

