



MEMORANDUM

December 22, 2015

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenlime
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Approval of a 2011 Lease and Use Agreement with Qantas Airways Limited

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

Executive Summary

Qantas Airways Limited (“Qantas”) commenced operations to Sydney, Australia on December 18, 2015 pursuant to an Airline Operating and Space Permit. It has requested that signatory status be granted pursuant to a 2011 Lease and Use Agreement (“2011 Lease”). The 2011 Lease has a ten-year term, 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 now seeks approval of a 2011 Lease with Qantas under the same terms, except that the length of the lease term will be approximately five 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 57 airlines currently operating at SFO, approximately 78% are signatories to the 2011 Lease. The major business terms of the 2011 Lease are summarized on Attachment A.

THIS PRINT COVERS CALENDAR ITEM NO. 13

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE MAYOR	LARRY MAZZOLA PRESIDENT	LINDA S. CRAYTON VICE PRESIDENT	ELEANOR JOHNS	RICHARD J. GUGGENHIME	PETER A. STERN	JOHN L. MARTIN AIRPORT DIRECTOR
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Qantas will commence operations to Sydney, Australia on December 18, 2015 pursuant to Airline Operating and Space Permit No. 4471. The 2011 Lease with Qantas contains the same terms and conditions as the 48 previously approved 2011 Leases, except that the length of the lease term will commence upon full City approval and is expected to be approximately five years and three months.

In addition to Landing Fees and Joint Use Fees (as summarized on Attachment B), Qantas will pay terminal rent for approximately 566 square feet of Category II Exclusive Use Space in the International Terminal.

Recommendation

I recommend adoption of the accompanying resolution approving a 2011 Lease with Qantas Airways Limited, and directing the Commission Secretary to request the Board of Supervisors' approval of the 2011 Lease in accordance with City Charter Section 9.118.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

JLM/LF/LP:gp

bcc: admin/chron/doc/Diane Artz/Linda Peng/Luke W. Bowman

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ATTACHMENT A

Basic Provisions of the 2011 Lease and 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 can be terminated by airlines upon certain extraordinary events, such as destruction of the leased space or closure of the Airport.
- Each signatory airline will be given a mid-term option to surrender up to 20% of their Exclusive Use Space on July 1, 2016.

ANNUAL SERVICE PAYMENT

The 2011 Lease continues the Airport Commission's payment of the Annual Service Payment to the City's General Fund in the amount of 15% of concession revenues.

TYPES OF SPACE

Space shall be leased in the following five categories of space shown below:

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.
- 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, as shown on *Attachment B*.
- 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, as shown on *Attachment B*.

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, which 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 fees in accordance with Airport 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 Airport 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:

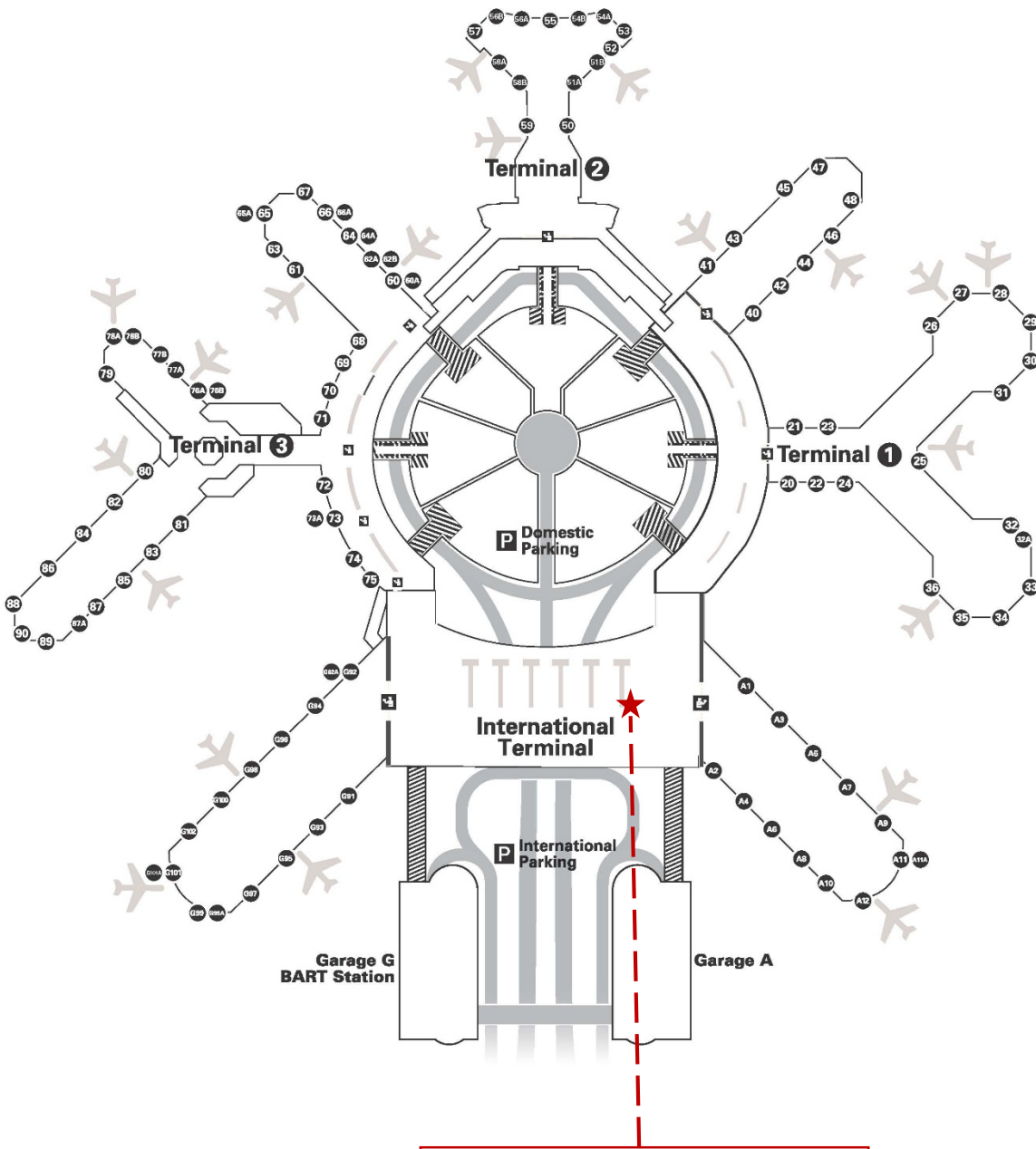
- A security deposit requirement equal to six months of terminal rental and landing fees.
- A 25% premium on Landing Fees. Non-signatory airlines that are "Affiliate Airlines" of signatory airlines, as defined in the 2011 Lease, will pay the same Landing Fees as signatory airlines.
- Charges for the 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 B

Joint Use Space (in square feet)

Joint Use Space	Categories of Rent					TOTAL
	I	II	III	IV	V	
<i>International Terminal</i>	138,367	214,307	12,025	265,400	1,888	<i>631,987</i>
<i>Terminal 1</i>	-	216	-	791	-	<i>1,007</i>
<i>Terminal 2</i>	-	13,006	-	78,957	-	<i>91,963</i>
<i>Terminal 3</i>	-	-	-	-	-	-

Exclusive Use Space Location



Approximately 566 square feet
International Terminal
Category II Exclusive Use Space