



MEMORANDUM

March 21, 2023

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

23-0064
through
23-0074
= MAR 21 2023

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 OPERATING AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE AGREEMENTS TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

A majority of airlines serving San Francisco International Airport (SFO or Airport) currently operate pursuant to the 2011 Airline Lease and Use Agreement (2011 Lease). The 2011 Lease expires on June 30, 2023. Airport staff and airline representatives have negotiated a new form of a Lease and Use Agreement, which will commence July 1, 2023 for a ten-year term (2023 Lease). Staff seeks Airport Commission (Commission) award of the 2023 Lease to the airlines listed in Attachment 1 to this Memorandum.

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. Most of the airlines serving SFO currently operate under the 2011 Lease (Signatory Airlines) originally set to expire on June 30, 2021. Airport staff and Signatory Airlines began negotiations for a new lease and use agreement in December 2019. 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. 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 execute the same form of 2023 Lease with only conforming changes reflecting the specific Signatory Airline and its demised premises.

THIS PRINT COVERS CALENDAR ITEM NO. 4

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED
MAYOR

ELEANOR JOHNS
PRESIDENT

MALCOLM YEUNG
VICE PRESIDENT

EVERETT A. HEWLETT, JR.

JANE NATOLI

JOSE F. ALMANZA

IVAR C. SATERO
AIRPORT DIRECTOR

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**: Ten years commencing on July 1, 2023 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: Expressed 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 has been offered to all airlines operating at SFO, 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, this Commission approved the 2023 Lease with 29 air carriers listed in Attachment 2. The 2023 Lease will continue to be offered to all other airlines through the remainder of its term, including to new entrants.

Staff now seeks Commission award of the 2023 Lease with each airline listed in Attachment 1, subject to the approval of the Board of Supervisors. 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 common sense 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, including, without limitation, for the avoidance of doubt, those 2023 Leases approved at the February 7, 2023 meeting of the Commission, as set forth on Attachment 2 to this Memorandum.

Recommendation

I recommend adoption of the accompanying Resolutions awarding the 2023 Lease to each of the airlines listed in Attachment 1 to this Memorandum 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

Attachment 1 – Signatory Airlines to the 2023 Lease and Use Agreement

Attachment 2 – Signatory Airlines to the 2023 Lease and Use Agreement, approved by the
Airport Commission on February 7, 2023

ATTACHMENT 1

SIGNATORY AIRLINES TO THE 2023 LEASE AND USE AGREEMENT For Airport Commission Approval

1. Air Canada
2. American Airlines, Inc.
3. British Airways, PLC
4. Cathay Pacific Airways, Ltd.
5. China Airlines, Ltd.
6. China Southern Airlines Company Limited
7. Frontier Airlines, Inc.
8. Philippine Airlines, Inc.
9. Swiss International Air Lines, Ltd.
10. TACA International Airlines, S.A. (TACA dba Avianca)
11. WestJet

ATTACHMENT 2

SIGNATORY AIRLINES TO THE 2023 LEASE AND USE AGREEMENT

Approved by the Airport Commission on February 7, 2023

AIRLINES	LEASE NO.
1. ABX Air, Inc.	23-0019
2. Aerovías de México S.A. de C.V. dba Aeroméxico	23-0020
3. Air China Limited	23-0021
4. Air India Limited	23-0022
5. Air New Zealand Limited	23-0023
6. Air Transport International, Inc.	23-0024
7. Alaska Airlines, Inc.	23-0025
8. All Nippon Airways Co, Limited	23-0026
9. Asiana Airlines Inc.	23-0027
10. China Eastern Airlines Co. Ltd	23-0028
11. Condor Flugdienst GMBH	23-0029
12. Delta Air Lines, Inc.	23-0030
13. Deutsche Lufthansa AG dba Lufthansa German Airlines	23-0031
14. Emirates	23-0032
15. EVA Airways Corporation	23-0033
16. Federal Express Corporation	23-0034
17. Japan Airlines Co., Ltd.	23-0035
18. Kalitta Air LLC	23-0036
19. Koninklijke Luchtvaart Maatschappij N.V. dba KLM Royal Dutch Airlines	23-0037
20. Korean Air Lines Co., Ltd	23-0038
21. Nippon Cargo Airlines, Inc.	23-0039
22. Scandinavian Airlines of North America Inc dba Scandinavian Airlines SAS	23-0040
23. Singapore Airlines Limited	23-0041
24. Société Air France dba Air France	23-0042
25. Southwest Airlines Co.	23-0043
26. Sun Country, Inc.	23-0044
27. Turk Hava Yolları A.O. dba Turkish Airlines	23-0045
28. United Airlines, Inc.	23-0046
29. Virgin Atlantic Airways Limited	23-0047