

San Francisco International Airport

MEMORANDUM

November 22, 2016

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 2011 Lease and Use Agreements with Aer Lingus Limited; Aerovias de Mexico, S.A. de C.V.; Etihad Airways, PJSC; and Turk Hava Yollari Anonim Ortakligi

DIRECTOR'S RECOMMENDATION: APPROVE 2011 LEASE AND USE AGREEMENTS WITH AER LINGUS LIMITED; AEROVIAS DE MEXICO, S.A. DE C.V.; ETIHAD AIRWAYS, PJSC; AND TURK HAVA YOLLARI ANONIM ORTAKLIGI AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASES TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Aer Lingus Limited ("Aer Lingus"), Aerovias de Mexico, S.A. de C.V. ("Aeromexico"), Etihad Airways, PJSC ("Etihad"), and Turk Hava Yollari Anonim Ortakligi ("Turkish Airlines") commenced operations at the San Francisco International Airport (the "Airport") under Airline Operating and Space Permit Nos. 4324, 4201, 4416, and 4441, respectively. These airlines wish to become signatory airlines pursuant to a 2011 Lease and Use Agreement ("2011 Lease"). The 2011 Lease has a term of 10 years, 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 separate 2011 Leases with Aer Lingus, Aeromexico, Etihad, and Turkish Airlines under the same terms, except that the length of the lease term will be approximately four years and four 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 61 airlines currently

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AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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IVAR C. SATERO
AIRPORT DIRECTOR

operating at the Airport, approximately 80% are signatories to the 2011 Lease (see Attachment A). The major business terms of the 2011 Lease are summarized on Attachment B.

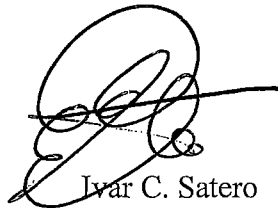
Proposal

The Airport continues to offer the 2011 Lease to airlines that wish to obtain signatory status at the Airport. Four passenger airlines (Aer Lingus, Aeromexico, Etihad, and Turkish Airlines) have executed and returned the 2011 Lease containing the same terms and conditions as the 2011 Lease executed by other airlines, except that the term of these 2011 Leases will be approximately four years and four months, becoming effective on the date they are fully approved by the City and expiring on June 30, 2021.

Aeromexico and Etihad will rent approximately 1,334 and 1,239 square feet, respectively, of Category II Exclusive Use Space in the International Terminal. Aer Lingus, Aeromexico, Etihad, and Turkish Airlines will use the International Terminal Joint Use Spaces and support facilities, as summarized on Attachment C, with terminal rental and landing fees assessed for the Exclusive Use Space, and Joint Use Space and support facilities subject to the Airport's Rates and Charges. Staff is now seeking Commission approval of the 2011 Leases with Aer Lingus, Aeromexico, Etihad, and Turkish Airlines, respectively, contingent upon approval of the Board of Supervisors.

Recommendation

I recommend adoption of the accompanying resolutions approving 2011 Leases with Aer Lingus, Aeromexico, Etihad, and Turkish Airlines, and directing the Commission Secretary to request Board of Supervisors' approval of such 2011 Leases, in accordance with City Charter Section 9.118.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

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.
- 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.

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 that 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.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

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 the Airport's 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 the Airport's 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 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 A

Signatories to the 2011 Lease and Use Agreements

| Airline Agreement Title | Lease No. | Airline Agreement Title | Lease No. |
|-------------------------|-----------------------|---|-----------------------|
| ABX Air | L11-0005 | Japan Airlines | L10-0088 |
| Air Berlin | L11-0006 | JetBlue Airways | L12-0027 |
| Air Canada | L11-0007 | Kalitta Air | L10-0277 |
| Air Cargo Carriers | L11-0008 | KLM Royal Dutch Airlines | L10-0089 |
| Air China | L10-0075 | Korean Airlines | L10-0090 |
| Air France | L10-0076 | LAN Peru | L11-0012 |
| Air New Zealand | L11-0009 | Lufthansa German Airlines | L10-0091 |
| Alaska Airlines | L10-0274 | Mexicana Airlines | L10-0092 ¹ |
| All Nippon Airways | L10-0077 | MN Airlines, LLC dba Sun Country Airlines | L12-0015 |
| American Airlines | L10-0078 | Nippon Cargo Airlines | L10-0278 |
| Ameriflight | L11-0010 | Qantas Airways | L15-0275 |
| Asiana Airlines | L10-0079 | Philippine Airlines | L10-0093 |
| British Airways | L10-0080 | Scandinavian Airlines | L13-0066 |
| Cathay Pacific Airways | L10-0081 | Singapore Airlines | L10-0094 |
| China Airlines | L10-0082 | Southern Air | L10-0279 |
| China Eastern | L13-0065 | Southwest Airlines | L10-0095 |
| China Southern | L15-0253 | Swiss International Air Lines | L11-0182 |
| Continental Airlines | L10-0275 ² | TACA | L10-0096 |
| COPA Airlines | L10-0166 | United Airlines ³ | L10-0097 |
| Delta Air Lines | L10-0083 | U.S. Airways | L10-0276 ⁴ |
| Emirates | L10-0084 | Virgin America | L10-0098 |
| EVA Airways | L10-0085 | Virgin Atlantic | L10-0099 |
| Federal Express | L10-0086 | WestJet | L11-0239 |
| Frontier Airlines | L10-0087 | World Airways | L12-0014 |
| Hawaiian Airlines | L11-0011 | | |

¹ Obtained full City approval but Tenant did not consummate the Lease.

² Terminated pursuant to Airport Commission Resolution No. 14-0018 and Board of Supervisors Resolution No. 191-47 due to merger with United Air Lines, Inc.

³ Lease originally signed as United Air Lines. Merger with Continental Airlines resulted in new entity known as United Airlines, Inc.

⁴ Terminated pursuant to Airport Commission Resolution No. 15-0274 and Board of Supervisors Resolution No. 131-16 due to merger with American Airlines.

ATTACHMENT B

Basic Provisions of 2011 Lease & 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 may be terminated by airlines upon certain extraordinary events, such as destruction of the leased space or closure of the Airport.

ANNUAL SERVICE PAYMENT

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

TYPES OF SPACE

Space shall be leased in the following five categories:

| 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.

ATTACHMENT C

Premises

**EXCLUSIVE USE SPACE IN THE INTERNATIONAL TERMINAL
(in square feet)**

| AIRLINE | CATEGORIES OF RENT | | | | | TOTAL |
|------------------|---------------------------|-----------|------------|-----------|----------|--------------|
| | I | II | III | IV | V | |
| Aer Lingus | - | - | - | - | - | <i>0</i> |
| Aeromexico | - | 1,334 | - | - | - | <i>1,334</i> |
| Etihad | - | 1,239 | - | - | - | <i>1,239</i> |
| Turkish Airlines | - | - | - | - | - | <i>0</i> |

**JOINT USE SPACE IN THE INTERNATIONAL TERMINAL
(in square feet)**

| | CATEGORIES OF RENT | | | | | TOTAL |
|------------------------|---------------------------|-----------|------------|-----------|----------|----------------|
| | I | II | III | IV | V | |
| International Terminal | 133,794 | 214,307 | 12,025 | 265,400 | 1,888 | 627,414 |