

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 19-0094

APPROVAL OF A 2011 LEASE AND USE AGREEMENT WITH IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. OPERADORA, SOCIEDAD UNIPERSONAL (INCLUDING IBERIA WHEN DOING BUSINESS AS LEVEL SPAIN) FOR OPERATING RIGHTS AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL

- WHEREAS, on April 25, 2018, Iberia, Líneas Aéreas de España, S.A. Operadora, Sociedad Unipersonal (including Iberia when doing business as LEVEL Spain) (Iberia) commenced flight operations at San Francisco International Airport (Airport) pursuant to Airline Operating and Space Permit No. 4711; and
- WHEREAS, Iberia wishes to become a signatory airline at the Airport pursuant to a 2011 Lease and Use Agreement (2011 Lease), a lease comparable to the 2011 Leases which were previously approved for 56 other airlines; and
- WHEREAS, as initially approved in March 2010, the 2011 Lease has a term of 10 years, expiring on June 30, 2021, and provides for terminal rent and landing fees in accordance with the Airport's Rates and Charges; and
- WHEREAS, the Airport Commission of the City and County of San Francisco (City) and Iberia now desire to enter into a 2011 Lease under the same terms and conditions, except that the term will be approximately two years and one month, with the exact term dependent upon full approval of Iberia's 2011 Lease by the City; and
- WHEREAS, in order to facilitate the implementation of the 2011 Lease and the placement in service of new facilities, the Commission desires to authorize the Airport Director to enter into non-material modifications to the 2011 Lease, including changes to the demised premises not to exceed 10% of leased square footage, that the Airport Director determines, in consultation with the City Attorney, are in the best interests of the Commission, do not otherwise materially increase the obligations or liabilities of the Commission, are necessary or advisable to effectuate the purposes of the 2011 Lease or this Resolution, and are in compliance with all applicable laws, including City's Charter; now, therefore, be it
- RESOLVED, that this Commission approves the 2011 Lease between Iberia and City consistent with the terms of the attached memorandum, subject to Iberia's compliance with Chapter 12B of the City's Administrative Code, and other City contracting requirements or obtaining the appropriate waivers thereto, as applicable; and, be it further
- RESOLVED, that this Commission authorizes the Airport Director to execute said 2011 Lease and to enter into any non-material modifications thereto, including changes to the demised premises of not to exceed 10% of leased square footage, as described above; and, be it further
- RESOLVED, that the Commission Secretary is hereby directed to request Board of Supervisors' approval of said 2011 Lease with Iberia pursuant to City Charter Section 9.118.

I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of APR 16 2019


Secretary



San Francisco International Airport

MEMORANDUM

April 16, 2019

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

19-0094

APR 16 2019

FROM: Airport Director

SUBJECT: Approval of a 2011 Lease and Use Agreement with Iberia, Líneas Aéreas de España, S.A. Operadora, Sociedad Unipersonal (including Iberia when doing business as LEVEL Spain)

DIRECTOR'S RECOMMENDATION: APPROVE A 2011 LEASE AND USE AGREEMENT WITH IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. OPERADORA, SOCIEDAD UNIPERSONAL (INCLUDING IBERIA WHEN DOING BUSINESS AS LEVEL SPAIN) AT SAN FRANCISCO INTERNATIONAL AIRPORT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

On April 25, 2018, Iberia, Líneas Aéreas de España, S.A. Operadora, Sociedad Unipersonal (including Iberia when doing business as LEVEL Spain) (Iberia) commenced operations at San Francisco International Airport (Airport) under Airline Operating and Space Permit No. 4711. Iberia wishes to become a signatory airline 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 seeks the Commission's approval of a 2011 Lease with Iberia under the same terms, except that the length of the lease term will be approximately two years and one month commencing upon the first day of the month following 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 64 air carriers currently operating at the Airport, approximately 79% are signatories to the 2011 Lease. Attachment A lists the airlines that are signatories to the 2011 Lease. Attachment B summarizes the major business terms of the 2011 Lease.

THIS PRINT COVERS CALENDAR ITEM NO. 13

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

MALCOLM YEUNG

IVAR C. SATERO
AIRPORT DIRECTOR

Proposal

The Airport continues to offer the 2011 Lease to airlines that wish to obtain signatory status at the Airport. Iberia has executed the 2011 Lease containing the same terms and conditions as the 2011 Lease executed by other airlines, except that the term of Iberia's 2011 Lease will be approximately two years and one month, becoming effective upon the first day of the month following full City approval and expiring on June 30, 2021.

Iberia will not rent any exclusive space and will use the International Terminal Joint Use Spaces and support facilities, as summarized on Attachment C. These spaces are subject to the Airport's Rates and Charges. Staff is now seeking Commission approval of a 2011 Lease with Iberia contingent upon approval of the Board of Supervisors.

Recommendation

I recommend that this Commission approves a 2011 Lease with Iberia and directs the Commission Secretary to request Board of Supervisors' approval of such 2011 Lease, in accordance with City Charter Section 9.118.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

ATTACHMENT A
Signatories to the 2011 Lease and Use Agreement

AIR CARRIER	LEASE NO.	AIR CARRIER	LEASE NO.
1 ABX Air	L11-0005	31 Japan Airlines	L10-0088
2 Air Berlin	L11-0006 ¹	32 Jet Blue	L12-0027
3 Aer Lingus	L16-0298	33 Kalitta Air	L10-0277
4 Air Canada	L11-0007	34 KLM Royal Dutch Airlines	L10-0089
5 Air Cargo Carriers, LLC	L11-0008	35 Korean Airlines	L10-0090
6 Air China	L10-0075	36 LAN Peru	L11-0012 ³
7 Air France	L10-0076	37 Lufthansa German Airlines	L10-0091
8 Air India	L17-0183	38 Mexicana Airlines	L10-0092 ⁴
9 Air New Zealand	L11-0009	39 MN Airlines, LLC dba Sun Country	L12-0015
10 Air Pacific dba Fiji Airways	L17-0184	40 Nippon Cargo Airlines	L10-0278
11 Alaska Airlines	L10-0274	41 Philippine Airlines	L10-0093
12 All Nippon Airways	L10-0077	42 Qantas Airways	L15-0275
13 American Airlines	L10-0078	43 Redding Aero	L16-0326
14 Ameriflight	L11-0010	44 Scandinavian Airlines	L13-0066
15 Asiana Airlines	L10-0079	45 Singapore Airlines	L10-0094
16 British Airways	L10-0080	46 Southern Air	L10-0279
17 Cathay Pacific Airways	L10-0081	47 Southwest Airlines	L10-0095
18 China Airlines	L10-0082	48 Swiss International Air Lines	L11-0182
19 China Eastern	L13-0065	49 TACA	L10-0096
20 China Southern	L15-0253	50 Turkish	L16-0301
21 Continental	L10-0275 ²	51 United Airlines	L10-0097
22 COPA Airlines	L15-0166	52 U.S. Airways	L10-0276 ⁵
23 Delta Air Lines	L10-0083	53 Virgin America	L10-0098 ⁶
24 Emirates	L10-0084	54 Virgin Atlantic	L10-0099
25 EVA Airways	L10-0085	55 WestJet	L11-0239
26 Federal Express	L10-0086	56 World Airways, Inc.	L12-0014 ⁷
27 Frontier Airlines	L10-0087		
28 Hawaiian Airlines	L11-0011		
29 Hong Kong Airlines	L18-0015		
30 Icelandair EHF	L18-0322		

¹ Agreement active; airline declared bankruptcy; ceased operations at SFO on 10/15/17

² Lease terminated; now part of United Airlines

³ Agreement active; airline non-operational at SFO

⁴ Obtained full City approval but did not consummate Lease

⁵ Lease terminated; now part of American Airlines

⁶ Carrier has merged its operations with Alaska Airlines.

⁷ Agreement active; airline declared bankruptcy

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.

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.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

- 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.

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.

ATTACHMENT B

Basic Provisions of 2011 Lease & Use Agreement

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 C

Premises

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