The City and County of San Francisco (the "City"), acting through its Airport Commission, has entered into a new form of Lease and Use Agreement (the "2011 Lease") that will govern the City's relationship with signatory air carriers operating at San Francisco International Airport ("SFO") or ("Airport") for a ten-year term effective July 1, 2011. As of June 1, 2011, 39 air carriers have executed the new Lease. The 1981 Lease and Use Agreement (applicable to carriers operating in SFO's domestic terminals) and the 1999 Lease and Operating Agreement (applicable to air carriers operating in SFO's International Terminal) will both terminate on June 30, 2010. Non-signatory airlines will continue to operate under short-term month-to-month operating permits or on an itinerant basis after the 2011 Lease takes effect.

The 2011 Lease is a detailed, state-of-the-art airport-airline agreement that conforms to accepted industry practice and applicable federal requirements. In this summary, the City will highlight the provisions of the 2011 Lease that the City would expect to be of special interest to the Federal Aviation Administration ("FAA"). The City would be happy to discuss all aspects of the new Lease with the FAA.

To enhance the efficient use of scarce terminal capacity and facilitate the Airport's ability to accommodate new entrants, the 2011 Lease eliminates exclusive use gates and calls for all gates to be assigned to air carriers on a joint use, common use or preferential use basis. The 2011 Lease provides a detailed formula for the assignment and reassignment of preferential use gates that depends upon relative efficiency of use and prescribes detailed rules for the use of preferential use gates to facilitate the accommodation of other carriers. The new 2011 Lease also provides for the recapture and reassignment of exclusively-assigned space (other than gates) to accommodate new entrants or expanding incumbent carriers.

To provide financial security to the Airport and reduce airline costs, the 2011 Lease continues to use the residual rate-setting method that took effect at SFO in 1981. Under this method, the air carriers commit to make the airport whole and receive, as consideration, a credit of 85% of SFO's concession (non-airline) revenues. The remaining 15% of SFO's concession revenues are paid to the City's General Fund each year as "Annual Service Payments" ("ASPs"). The U.S. Department of Transportation has acknowledged that the ASPs are a lawful, "grandfathered" use of airport revenue, and the FAA has approved the continuation of ASPs under the 2011 Lease.

Under the 2011 Lease, non-signatory carriers will pay a 25% premium on landing fees unless they are an "affiliate" of a signatory carrier.

The 2011 Lease continues to give the signatory carriers a role in the review of capital improvements. A majority-in-interest ("MII") of the signatory carriers may require the Airport to defer qualifying capital projects for six months to provide time to consider air carrier concerns, but the City ultimately retains the ability to make capital improvements it determines to be in SFO's best interest.
The 2011 Lease enhances SFO’s position in airline bankruptcy by preserving airline cross-default provisions and the Airport’s cross-termination remedy.

To reduce the SFO's credit risk and expedite airline payments, the new 2011 Lease provides for self invoicing.

The 2011 Lease includes strengthened "boilerplate" provisions for insurance, indemnification and environmental liabilities that are consistent with current industry standards.

The 2011 Lease contains provisions for environmental sustainability measures.