



San Francisco International Airport

August 31, 2023

Ms. Laurie Suttmeier
San Francisco Airports District Office, Manager
Federal Aviation Administration
2999 Oak Road, Suite 200
Walnut Creek, CA 94597

Subject: San Francisco International Airport Federal Fiscal Year 2023 Competition Plan Update

Dear Ms. Suttmeier:

Pursuant to the Federal Aviation Administration (FAA) Airport Improvement Program (AIP) Handbook (FAA Order 5100.38D, Change 1, February 26, 2019) Appendix W. Competition Plans (Appendix W), San Francisco International Airport (Airport) is submitting a Competition Plan update (Plan Update) to meet this FAA requirement since the Airport has executed a new master lease and use agreement. Please find enclosed the following required Plan Update documents:

- One copy of an executed 2023 Lease and Use Agreement (2023 Lease) and
- A written description of the changes in the lease terms and leasing practices.

Per Appendix W, the Airport is also transmitting two copies of the Plan Update and written description of the changes to the FAA's Director of Airport Planning and Programming (APP-1), 800 Independence Avenue, S.W., Washington, DC 20591 and is submitting one copy each to the San Francisco Airports District Office and Western-Pacific Regional Office.

Consistent with the public availability requirements of 49 USC § 47107(a)(15) and paragraph W-7 of Appendix W, the Airport will post the Plan Update and this letter on the Airport's website at the following URL: <https://www.flysfo.com/about-sfo/the-organization/competition-plan>

The first date of execution of the 2023 Lease was July 1, 2023 with 40 air carriers. By this submittal today, we are satisfying Appendix W requirement to submit a Plan Update within two months of the execution of the lease. Since then, seven additional air carriers operating at the Airport have signed the 2023 Lease.

If you require additional information, please contact Tina Ko at (650) 821-2826 or at tina.ko@flysfo.com.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ivar C. Satero", is written over a circular embossed seal. The signature is fluid and cursive.

Ivar C. Satero
Airport Director

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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Enclosures

cc: Jesse Carriger, FAA
Julieann Dwyer, FAA
Mark McClardy, FAA
Arlene Draper, FAA
Amy Choi, FAA
Lemuel del Castillo, FAA
Kevin Bumen, SFO
Kevin Kone, SFO
Ronda Chu, SFO
Javad Hadizadeh, SFO

**SAN FRANCISCO INTERNATIONAL AIRPORT COMPETITION PLAN UPDATE
DESCRIPTION OF CHANGES IN LEASE TERMS,
AND LEASING PRACTICES OR POLICIES
2023 LEASE AND USE AGREEMENT**

The City and County of San Francisco (City), acting through its Airport Commission, has finalized a new Lease and Use Agreement (2023 Lease) that governs the City's relationship with signatory air carriers operating at San Francisco International Airport (SFO or Airport) for a 10-year term effective July 1, 2023. As of August 21, 2023, 47 air carriers have executed the 2023 Lease. The 2011 Lease and Use Agreement (2011 Lease) terminated on June 30, 2023. All air carriers seeking to become signatory airlines will be offered the opportunity to execute the 2023 Lease for a term continuing through June 30, 2033. Non-signatory airlines will continue to operate under month-to-month operating permits or on an itinerant basis.

The 2023 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 2023 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.

The 2023 Lease retains and builds on the system put into place by the 2011 Lease which continues to enhance the efficient use of scarce terminal capacity and facilitate the Airport's ability to accommodate new entrants. The 2011 Lease eliminated exclusive use gates and called for all gates to be assigned to air carriers on a joint use, common use, or preferential use basis. Under the 2023 Lease, all gates are now preferential use or common use. The formula implemented by the 2011 Lease for the annual assignment and reassignment of all preferential use gates, as well as processes provided for the recapture and reassignment of exclusively assigned space (other than gates) to accommodate new entrants, has been retained and improved in the 2023 Lease.

The 2023 Lease further enhances other measures that proved successful under the 2011 Lease. It increases the gate reallocation review period from one month to nine months for airline scheduled seat capacity for the purposes of allocating preferential use gates, which should result in the more equitable allocation of preferential use gates among signatory airlines, and the more efficient use of such gates year-round. Consistent with the 2011 Lease, the City retains the right to reserve up to 10 percent of domestic contact gates for common use. In the 2023 Lease, the City also reserves all remote gates (Bus Gates) and all gates connected to the Federal Inspection Station for common use and excludes both gate types from the 10 percent common use gate cap. In addition, the 2023 Lease includes an updated accommodation provision to provide the City greater ability to address the needs of air carriers seeking to initiate service to SFO or incumbent carriers seeking to expand service to SFO. Also, consistent with the FAA's comments to the City in its August 8, 2022 letter (FAA Letter), the 2023 Lease includes procedures for allocating remote aircraft parking positions based on the same priority system as the City's assignment of common use gates.

To provide financial security to the Airport and reduce airline costs, the 2023 Lease continues to use the residual rate-setting method that first took effect at SFO in 1981 and was continued under

the 2011 Lease. 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-aeronautical) 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 approved the continuation of ASPs in the 2011 Lease.

The 2023 Lease provides additional financial security and reduces financial risks for both the City and signatory airlines, by (i) preserving airline cross-default provisions and the Airport's cross-termination remedy, (ii) providing for self-invoicing, and (iii) strengthening "boilerplate" provisions for insurance, indemnification and environmental liabilities.

The 2023 Lease establishes an operating reserve and capital improvement fund (ORCIF) totaling \$800 million over the 10-year term of the 2023 Lease. The ORCIF may be used for any lawful airport purpose, further expanding the City's ability to expand existing facilities at SFO and acquire and develop additional facilities to accommodate additional airline service and anticipated growth in passenger enplanements. The 2023 Lease also continues to give the signatory carriers an advisory role in the review of most types 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 City has, in addition, implemented FAA's suggestion from its FAA Letter suggesting the City include a provision exempting projects funded with Passenger Facility Charges from MII review.

In the FAA Letter, FAA made additional recommendations that the City continues to consider. While the City has not yet designated a Competitive Access Liaison, it is reviewing the need for the position, as well its role relative to the Airport Business Development Office and the Resource Management Advisory Committee established pursuant to the 2011 Lease.

Additionally, the City has determined that including additional formal dispute resolution procedures in 2023 Lease was not necessary or advisable. Such provisions could deprive the City of legal rights and options that, depending on the dispute, could be advantageous to the City. If a dispute between the City and an air carrier cannot be resolved informally, the City has retained the ability to take legal action as it deems necessary to protect the interests of the City.



U.S. Department
of Transportation
**Federal Aviation
Administration**

Office of Airport Planning
and Programming

800 Independence Ave., SW.
Washington, DC 20591

January 17, 2024

Mr. Ivar C. Satero
Director
San Francisco International Airport
P.O. Box 8097
San Francisco, CA 94128

**Subject: San Francisco International Airport
FAA Review of FY2023 Competition Plan Update**

Dear Mr. Satero:

Thank you for submitting the above-referenced Competition Plan Update (Plan Update) for San Francisco International Airport (SFO). FAA Order 5100.38D , Change 1 required this update because SFO is a Covered Airport¹ and recently executed a new Lease and Use Agreement in 2023 (Agreement). This is SFO's fourth Plan Update.²

The Federal Aviation Administration (FAA) has reviewed SFO's Plan Update. In the Plan Update, the City and County of San Francisco (City) describes the following pro-competitive actions taken at SFO in the new Agreement:

- Reserving all remote gates and all gates connected to the Federal Inspection Station as common use, which are not included in the 10 percent common use gate cap;
- Increasing the gate reallocation review period from one month to nine months for the purposes of allocating preferential use gates; and
- Including new procedures for allocating remote aircraft parking positions.

We commend the City for taking these pro-competitive actions. We also acknowledge that SFO has made its Competition Plan publicly-available on the airport's Internet website. Thus, we find SFO's Plan Update generally to be in accordance with the applicable statutory requirements.³

¹ As defined in FAA Order 5100.38D, Change 1 ("Airport Improvement Program Handbook," Appendix W), Covered Airports are those where one or two air carriers control more than 50 percent of the passenger boardings. Based on calendar year 2022 data, two air carriers accounted for more than 50 percent of enplanements at SFO.

² The FAA approved the initial Competition Plan for SFO on October 13, 2000. The FAA approved three plan updates on June 11, 2002, March 29, 2004, and August 8, 2022.

³ Section 155 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR 21), Pub. L. No. 106 181, (April 5, 2000), 49 U.S.C. §§ 40117(k) and 47106(f).

In consideration of the pro-competitive policies and practices described in the Competition Plan, and in view of the circumstances described above, the FAA approves SFO's 2023 Competition Plan Update.

The City has now filed (and the FAA has approved) an initial Competition Plan and four Plan Updates. Per FAA policy, no further Plan Updates are required for SFO unless certain circumstances arise.⁴ The most common of these circumstances would be if the airport executes a new or significantly amended lease and use agreement, including an amendment due to the use of Passenger Facility Charge financing for gates. Plan Updates should include the content required by Table W-3 of FAA Order 5100.38D, Change 1, and if such information was not submitted previously, it should be included in the next Plan Update. Also, when appropriate, a public agency should explicitly state there has been no change since the last FAA approval to information previously submitted.

As you may know, the Secretary of Transportation is required by law⁵ to review implementation of Competition Plans from time to time, to verify each Covered Airport implements its Competition Plan successfully. In connection with our review, we may determine that it would be useful to visit your airport or hold a teleconference with airport officials. We will contact you if we decide to visit SFO in connection with its Competition Plan.

If you have any questions regarding this letter or the FAA's review of your Plan Update, please contact David F. Cushing, Manager, Airports Financial Assistance Division at (202) 267-8827 or Dave.Cushing@faa.gov.

Sincerely,

Robert A. Hawks
Deputy Director, Office of Airport
Planning and Programming

cc: Mark McClardy, Director, FAA Airports Division, Western-Pacific Region
Christopher Schaffer, Acting Manager, FAA Airports Planning and Programming
Branch,
Western-Pacific Region
Laurie Suttmeier, Manager, FAA San Francisco Airports District Office

⁴ See FAA Order 5100.38D, Change 1, Airport Improvement Program Handbook, Appendix W.

⁵ 49 U.S.C. § 40117(k)