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

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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.