SILICON VALLEY'S AIRPORT

SJC

6.1 Airline-Airport Lease

New Lease and Operating Agreement

Background

- Current lease expires on June 30, 2019
  - Adopted in 2007
  - Twice extended
- Guiding Principles
  - Based on input from City Council, Airport Commission, and City Senior Management
    - Protect the long-term financial stability of the Airport
    - Not paying for City/Gov’t used space
    - Preserve ability of the Airport to expand the terminal
    - Keep the Airport competitive and attractive to airlines

Key Elements

- Retains many of the fundamental element of the original lease, with some updates:
  - 10-year term with two consecutive 5-year extensions
  - City does not pay for federal- and City-used space
  - Retains pre-approval for Terminal B's phase II
  - Increases spending limits for capital projects from $5m to $10m without consulting or approval from Signatory Airlines
  - Provides incentives to become Signatory as Non-Signatory Airlines:
    - Pay 25% more in their rates and charges
    - Required to provide a security deposit
    - Do not participate in revenue sharing with the Airport

Key Elements (continued)

- Revenue Sharing for Signature Airlines includes:
  - Until Phase II, Airport receives the first $4m of net remaining revenue
  - After Phase II, Airport receives the first $2m of net remaining revenue
  - After this initial amount goes to the Airport, the remaining revenue is split 60%/40% (Airlines/Airport)
- Maintains extraordinary coverage protection
- Continuation of indirect overhead brackets that limit indirect expenses to no less than 15% and no more than 25%

What Does the City Achieve?

- Long-term commitment by airlines to SJC
- Reaffirming that Phase II of Terminal is approved by the airlines
- Explicit that City doesn’t pay for federal and City used space
- Increased spending limits for terminal and airfield projects without the need to consult or seek approval from the airlines
- Airlines bear vacancy risk for gates and hold rooms
- Extraordinary coverage protection for annual debt service and coverage requirements

What Do the Airlines Achieve?

- 10 year of predictable pricing
- Additional benefits for being a signatory airline
  - No security deposit
  - Higher revenue split (60/40 compared to 50/50)
- Limits construction of a new FIS Facility until annual international passenger count reaches 550,000
- Airport bears vacancy risk for terminal rental space not used by Airlines