



**COMPETITION PLAN UPDATE
SACRAMENTO INTERNATIONAL AIRPORT**

January 1, 2004

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INTRODUCTION

The Wendell H. Ford Aviation Investment and Reform Act For the 21st Century (AIR 21), enacted on April 5, 2000, requires that a competition plan be filed and periodically updated with the Federal Aviation Administration (FAA) by certain airport operators before they can receive grants under the Airport Improvement Program (AIP) or be authorized to impose a new passenger facility charge.

The requirement for a competition plan applies to any large or medium hub airport at which one or two airlines control more than 50% of enplaned passengers. At Sacramento International Airport (the Airport), the two largest airlines for the twelve-month period ended June 30, 2003 accounted for 61% of enplaned passengers (Southwest Airlines 52% and United Airlines 9%). Thus, the Airport is subject to the requirements of AIR 21.

Pursuant to the provisions of AIR 21, the County of Sacramento submitted its original competition plan to the FAA in October 2000. The FAA approved the County's competition plan on February 20, 2001. The County submitted an update to the original competition plan in April 2002 (referred to herein as the 2002 Update) and the FAA approved the County's update in July 2002. Pursuant to current FAA requirements (in Section 155 of AIR 21 and as described in FAA Program Guidance Letter 03-01, dated November 19, 2002), an airport sponsor must update and submit its competition plan within 18 months of their previous plan or update approval in order to maintain continued eligibility to receive AIP grant funding and to impose a PFC.

Information to be addressed in the annual competition plan update, as specified in AIR 21 and discussed in the FAA Program Guidance Letter 03-01, is as follows:

1. Availability of gates and related facilities
2. Leasing and subleasing arrangements
3. Patterns of air service
4. Gate assignment policy
5. Gate use arrangements
6. Financial constraints
7. Airport controls over airside and landside capacity
8. Airport intention to provide common-use gates

In compliance with Section 155 of AIR 21, this report updates the County's approved original competition plan and 2002 Update, demonstrates how the County has provided for new entrant access and expansion of incumbent carriers in the last 18 months, and addresses the issues the FAA identified in its approval of the County's 2002 Update. FAA questions, recommendations, and requests are restated and addressed in the relevant subject category sections in this report--as directed by the FAA. Also, Attachment A provides a summary of each FAA question, recommendation or request for additional information and indicates the section of this report containing the County's response.

1. AVAILABILITY OF GATES AND RELATED FACILITIES

a. Inventory of available gates

The table below summarizes the inventory of gates available at the Airport as of December 2003.

Table 1 INVENTORY OF AIRPORT GATES Sacramento International Airport December 2003				
	Terminal <u>A</u>	Terminal <u>B</u>	International Arrivals <u>Building</u>	<u>Total</u>
Exclusive	0	0	0	0
Preferential	13	9	0	22
Common	<u>0</u>	<u>5*</u>	<u>1</u>	<u>6</u>
Total	13	14	1	28

* New Gate 25 commissioned at Terminal B in November 2003.
Source: County of Sacramento.

No gates are leased exclusively, and the preferential use gates are available for reassignment to other airlines at the County's option. The County-controlled common use gates are available for use by any airline. As shown in Table 1, the County controls six gates that are not assigned to any airline exclusively or preferentially, and are available for use by new or expanding airlines—one of these gates is for international arrivals only.

In the period since the preparation of the 2002 Update, the availability of preferential and common use gates, ticket counter, and bag space has proven sufficient to accommodate all new entrant and incumbent airline requests for use of Airport facilities. The County expects that existing facilities will also be sufficient to accommodate new entrant and incumbent airline requests in the near-term. It should be noted that, if demand warrants, the County could reconfigure Terminal B for a total of 16 gates (instead of the current configuration with 14 gates) with minimal investment. Terminal B has flexibility in terms of how loading bridges are configured. Prior to the opening of Terminal A, Terminal B was configured for 16 gates.

The County intends to continue to maintain such flexibility to provide gate availability for new, competitive air service.

FAA request: Provide information on the circumstances that led to the reduction in total gates at the airport and the County's decision to take the total reduction from common-use gates.

County response: The table below presents data on the change in total Airport and common use gates since the original competition plan was prepared in October 2000.

Prior to the opening of Terminal A, Terminal B had been configured for 16 total gates (as reflected in the original competition plan). With the availability of the new gates at Terminal A, Terminal B was reconfigured for 13 total gates, reducing the total Airport gates from 29 to 26. The reconfiguration of Terminal B to 13 gates has resulted in more balanced passenger activity between terminals A and B (recognizing that, with the newly available gates at Terminal A, there was less need for gates at Terminal B). The reduction from 7 common use gates (reflected in original plan) to 4 common use gates (reflected in 2002 Update) was a result of (1) reconfiguration of Terminal B, (2) Continental taking one common use gate in Terminal A, and (3) United giving up one gate in Terminal B.

Table 2
CHANGE IN GATE INVENTORY

	Original Plan (Oct 2000)	2002 Update (Apr 2002)	Change (a)	Current (Dec 2003)	Change (b)
Total Airport gates					
Terminal A	13	13	0	13	0
Terminal B	16	13	-3	14	1
	0	0	0	1	1
Total	29	26	-3	28	2
Common use gates					
Terminal A	1	0	-1	0	0
Terminal B	6	4	-2	5	1
International Terminal	0	0	0	1	1
Total	7	4	-3	6	2

(a) Terminal B reconfigured with 3 fewer gates.; United give-back of one gate in Terminal B; and allocation of one Terminal A gate to Continental.

(b) New common-use gate at Terminal B; new common-use international terminal.

Since the 2002 Update, the numbers of total gates and common-use gates have increased. A new Gate 25 was commissioned at Terminal B in November 2003, and this is available as a new common-use gate. Also, the new gate at the international arrivals building is available as a common-use gate for international arrivals. As shown on Table 2, the number of common-use gates as of December 2003 is 6, or greater than the number (4) reported in the 2002 Update.

Given that no gates are leased exclusively, the County believes that the current complement of 6 common-use gates (combined with the 22 preferential use gates) is sufficient to accommodate potential new-entrant demand. This is reinforced by the fact that the County has not experienced any difficulty in accommodating the gate requirements of new entrant airlines or expanded service of existing airlines.

b. Number and identity of any air carriers that have begun providing or stopped service

Since the 2002 Update, the following air carriers have begun providing service at SMF:

- In June 2002, Hawaiian Airlines began serving SMF with one daily nonstop flight to Honolulu. Hawaiian Airlines operates in Terminal A using the Delta Airlines ticket counter--flights are accommodated on one of Delta's gates in Terminal A. Hawaiian Airlines contracts with Delta for ground handling operations.
- In July 2002, Mexicana Airlines began serving SMF with four flights per week to Mexico City (via Guadalajara). By December 2002, Mexicana Airlines added another 3 flights per week to Mexico City. Mexicana departures are accommodated on a per-use basis at one of the County-controlled common-use gates in Terminal B. Mexicana arrivals are accommodated in the International Arrivals Building discussed in section 1C below. Mexicana Airlines contracts with Frontier Airlines for above-wing and ATS for ground-handling operations.
- In April 2003, Aloha Airlines began serving SMF with one daily flight to Maui (via Burbank). Aloha Airlines flights are accommodated on a per-use basis at one of the County-controlled common-use gates in Terminal B. Aloha Airlines contracts with Hallmark Aviation for above-wing and ATS for ground handling operations.
- In May 2003, SunTrips began serving SMF with one nonstop charter flight per week to Maui (on a seasonal basis through August 2003). SunTrips flights were accommodated on a per-use basis at one of the County-controlled common-use gates in Terminal B. SunTrips contracted with for ground handling operations.

As discussed in Section 1(k) and reflected in Table B-2 of Attachment B, certain incumbent carriers have also expanded existing service. Since the 2002 Update, no air carriers have stopped serving SMF.

c. Description of the process for accommodating new service

The Airline Agreement, as well as the Airline Rate Ordinance, gives the County the authority and flexibility to accommodate new entrants and incumbent carriers' service

expansion. As detailed in Section 1(k), the County has been successful in accommodating all airline requests for facilities. In accommodating these new entrant airlines, the County has not been made aware of any problems related to lack of available space to provide for new operations.

FAA request: Describe procedures by which a carrier may request assignment to preferential-use gates, common-use gate.

County response: Air carriers requesting assignment to Airport facilities (gates, ticket counter space, bag space, etc.) submit a written request to the County. The process for airline gate requests typically involves (1) meetings with County and airline representatives to discuss airline needs and available gates and other facilities and (2) a written request to the County. The County is not aware of any reason why this process wouldn't be appropriate going forward.

d. Number of new gates that have been built or are now available

In July 2002, the County completed renovations of the former commuter terminal building to serve as an international arrivals building. This renovated building contains one arrival-only gate with a passenger loading bridge and space for processing arriving international passengers. In November 2003, Gate 25 was commissioned for use in Terminal B. These new gates (and the associated processing space) are used on a common-use basis. Otherwise, no new gates have been built or are now available since the preparation of the 2002 Update.

It should be noted that, if demand warrants prior to the opening of a planned new terminal building discussed later in Section 6 and Section 8, the County could reconfigure Terminal B for a total of 16 gates (as opposed to the current configuration with 14 gates) with minimal investment. Terminal B has flexibility in terms of how loading bridges are configured. Prior to the opening of Terminal A, Terminal B was configured for 16 gates.

e. Number of gates that have been converted to common use status

No gates have been converted to common use status since the preparation of the 2002 update.

f. Gate utilization

The table below summarizes average daily gate utilization (departures per gate) for calendar year (CY) 2002.

Table 3 GATE UTILIZATION Sacramento International Airport CY 2002			
	<u>Average daily Departures</u>	<u>Gates (a)</u>	<u>Daily departures per gate</u>
Terminal A			
Southwest Airlines	65.5	8	8.2
America West Airlines	10.3	2	5.2
Delta Air Lines	5.5	2	2.8
Continental Airlines	2.0	1	2.0
Hawaiian Airlines	<u>0.6</u>	<u>0 (b)</u>	<u>0.6</u>
	83.9	13	6.5
Terminal B			
Alaska Airlines/Horizon	11.9	2	6.0
United Airlines	9.8	4	2.5
American Airlines (c)	7.3	2	3.7
Northwest Airlines	2.9	1	2.9
County gates			
Frontier Airlines	1.7	1	1.7
Mexicana	0.3	1	0.3
Other	<u>-</u>	<u>2</u>	<u>n.a.</u>
	33.9	13	2.6
Commuters	<u>23.6</u>	<u>0 (d)</u>	<u>n.a.</u>
Total	141.4	26.0	5.4
n.a. = not applicable (a) Does not reflect arrival gate in International Arrivals Building. (b) Flights accommodated at one of Delta's gates. (c) Includes the activity of TWA. (d) Commuter flights are accommodated at the gates of major airline partners.			
Source: Average Daily Departures—Official Airline Guides, Inc. Gates—County of Sacramento, Department of Airports			

The overall average utilization for CY 2002—5.4 daily departures per gate—is slightly higher, but similar to the utilization in recent prior years, as reported in the 2002 Update. The relatively low utilization of Terminal B gates indicates the County's capacity to

accommodate new airline service, particularly at the County-controlled common use gates. As an example, if there were 5.0 daily departures per gate in Terminal B (compared to the actual 2.6 shown on Table 3), the Terminal B gates would accommodate 65 daily departures (compared to the actual 33.9 shown on Table 3).

g. Gate utilization monitoring

FAA request: Provide a more detailed description and a timetable for implementing an enhanced actual gate-use monitoring program.

County response: In connection with current Terminal Modernization Program planning efforts (now being finalized), the County has collected recent information on gate utilization by airline, including average daily utilization and peak period utilization. Beginning in 2004, the County intends to begin calculating gate utilization on a monthly basis as part of the airline traffic reports prepared each month.

The County has contracted for and is in the process of implementing a system called GAPS—Gate Allocation and Positioning System. Once GAPS has been installed and is operating, it will generate reports depicting gate utilization. The County anticipates that GAPS will be operational by the end of 2004, at which time the County will be able to calculate gate utilization on a monthly basis for common use gates as part of monthly airline traffic reporting. Monthly gate utilization reports will reflect average daily departures by airline, number of gates by airline, and daily departures per gate.

The County intends to use this information as a “foundation” for continuous monitoring of gate utilization in the future. In accordance with the intent of providing better information for the accommodation of new airline service, the additional gate utilization data will be prepared and distributed for two main purposes:

1. Identification of available gate capacity for new entrant airlines and new service of existing airlines, including identification of capacity by time of day to coordinate with potential new scheduled service, and
2. Identification of any under-utilized preferential gates that would be candidates for reassignment to airlines needing gate capacity for new service.

An extract of information from GAPS—index of contents and overview of the system—is provided as Attachment D. Additional detail could be provided if desired.

h. Gate recapture

All gates are assigned to airlines on a preferential use basis, with the exception of the common use gates, which are available for any airline. The Airline Agreement and the Airline Ordinance give authority to the Director to reassign, reallocate or relocate air carriers as necessary to meet the best interest of the traveling public. See Section 4(b) below for additional information on County authority over preferential gates.

i. Gate allocation or assignments since the last competition plan update

Since the submission of the 2002 Update, no changes have occurred in connection with gate allocation or assignments. However, two new common-use gates have been added, as shown in Table 2. These new gates have not been assigned to any airlines exclusively.

j. RON position allocation or assignments since the last competition plan update

Since the submission of the 2002 Update, no changes have occurred in connection with gate RON position allocation or assignments.

k. Accommodation of new entrants and incumbent carriers seeking to expand at the airport and resolution of any access disputes

The Airline Agreement (as discussed in more detail under Section 2), as well as the Airline Rate Ordinance, gives the County authority and flexibility to accommodate new entrants and incumbent carriers' service expansions.

As mentioned earlier, the availability of five County-controlled gates in Terminal B and one County-controlled gate in the International Arrivals Building provide access on a common-use basis, without interference with any pre-existing preferential-use leases. In the event that this is not sufficient, the County can access preferential-use gates and terminal building space--see Section 4(b) below for additional information. In addition, as described in Section 1(a), the County could reconfigure Terminal B for 16 gates (from the existing configuration with 14 gates) if necessary.

Since the submission of the 2002 Update, the County has been successful in accommodating new entrant air service, as follows:

1. Hawaiian Airlines—Hawaiian Airlines began service in June 2002. Prior to beginning service, Hawaiian Airlines contacted County officials to determine facilities options, and was presented with a variety of alternatives for combining terminal and gate space for the proposed operation. Based on these alternatives, Hawaiian Airlines decided to operate from Terminal A, using Delta ticket counters and one of Delta's gates.
2. Mexicana Airlines—Mexicana Airlines began service in July 2002. Prior to beginning service, Mexicana Airlines contacted County officials to determine facilities options, and was presented with a variety of alternatives for combining terminal and gate space for the proposed operation. Based on these alternatives, Mexicana Airlines decided to use one of the County-controlled common-use gates in Terminal B on a per-use arrangement.
3. Aloha Airlines—Aloha Airlines began service in April 2003. Prior to beginning service, Aloha Airlines contacted County officials to determine facilities options, and was presented with a variety of alternatives for combining terminal and gate space for the proposed operation. Based on these alternatives, Aloha Airlines decided to

use one of the County-controlled common-use gates in Terminal B on a per-use arrangement.

4. SunTrips—SunTrips began service in May 2003 (on a seasonal basis through August 2003). Prior to beginning service, SunTrips contacted County officials to determine facilities options, and was presented with a variety of alternatives for combining terminal and gate space for the proposed operation. Based on these alternatives, SunTrips decided to use one of the County-controlled common-use gates in Terminal B on a per-use arrangement.

In accommodating these new entrant airlines, the County has not been made aware of any problems related to lack of available space to provide for new operations.

In addition, the County has historically been successful in accommodating the needs of existing airlines seeking to expand service and needing additional space. For Southwest Airlines, which added 4 daily flights to John Wayne International Airport (SNA) in March 2002 and an additional 3 daily flights to SNA in August 2003, the County has developed new ticket counter space and baggage claim space in areas of the terminal building that were not previously used for these functions. This is an indication of the ability to accommodate new service “outside the bounds” of the existing space inventory.

FAA request: Spell out procedures for the submission or resolution of complaints about denial of access. FAA recommends that the complaint process include (1) specific procedures for filing written complaints, including designation of a specific contact name and address for the filing of disputes, (2) designation of an airport official who would have the authority to mediate disputes, (3) establishment of a specific timeframe for completion of initial action on complaints, and (4) establishment of a process to appeal initial determinations to either senior airport management or the airport governing body.

County response: The County has not had any complaints regarding denial of access. The County negotiated a resolution process with the airlines as set forth in Sections 3.05 and 3.06 of the Airline Agreement (Attachment C to this Competition Plan Update). The resolution process has also been adopted as part of Title 11 of the Sacramento County Code (documentation available upon request). The County believes that the process so adopted meets the spirit and intent of the dispute resolution process recommended by FAA and outlined in the FAA request above.

I. Information on gate availability

FAA request: Provide a copy of the Airline Information Package discussed in the 2002 Update.

County response: The County has continued to identify information that is useful for prospective airlines in understanding business practices and enhancing access to facilities in order to ensure competitive air service.

For airlines interested in starting new service or expanding existing service at the Airport, the County typically provides a package of certain basic information such as:

1. An incentive package which consists of Marketing Credits and Airline Operating incentive credits
2. An airline rates and charges package documenting the current structure of rents and fees
3. Sample airline lease

The County also typically provides a tour of Airport facilities to identify prospective lease premises, which consists of any appropriate combination of Exclusive Use, Preferential Use, Common Use and Joint Use space.

In considering the possibility of an Airline Information Package that would meet all needs of any potential airline, the County has determined that airline needs are unique, and that information requirements must be customized for each situation. As a result, the County has developed a practice of (1) first providing certain basic airline information as outlined above and (2) next developing more customized information as appropriate for the particular airline situation.

In addition, because the County is currently in the process of defining the next stage of terminal development (the current Terminal Modernization Program), there is uncertainty regarding the status of future terminal facilities at the Airport—size, configuration, cost, etc. As a result, it is not possible at this time to provide a complete package of “known” airline information.

Despite these uncertainties, the County believes it has been successful in providing information for new and expanding airlines that permit the initiation of new, competitive air service, as evidenced by (1) the new service that has been initiated at the Airport, and (2) the lack of any complaints by airlines wishing to initiate new service.

2. LEASING AND SUBLEASING ARRANGEMENTS

a. Changes in contractual arrangements

The County and the airlines are negotiating an amendment to extend the term of the Scheduled Airline Operating Agreement and Terminal Building Lease (the Airline Agreement) that recently expired in June 2003 and is continuing on a month-to-month holdover basis. The extended Airline Agreement does not contain any material changes in terms from the agreement previously in place and provides the County with the option to extend the term for two or three one-year periods, through June 30, 2005 or 2006. All of the scheduled airlines operating at the Airport operated under the prior Airline Agreement. The County expects that all of the scheduled airlines operating at the Airport will execute the extended Agreement and thus be eligible for the prepaid revenue credit.

The Airline Agreement governs the operations, assignment of space and the calculation of airline rates and fees. Airlines that do not execute agreements operate pursuant to the Airline Rate Ordinance (the Ordinance). The Ordinance parallels the terms of the

Agreement, except that the prepaid airline revenue credit applies only to the calculation of the landing fee rate for those airlines that have executed Agreements. A copy of the extended Airline Agreement is provided as Attachment C.

The County believes that the extended Airline Agreement (with no material changes in terms from the agreement previously in place) provides for fair and reasonable access by new entrants, as described in previous sections. As mentioned in the 2002 Update, the County plans to pursue new business arrangements in the future that will provide even more flexibility to accommodate new entrant airlines.

b. Assuring access at the Airport

The extended Airline Agreement and the Ordinance allow for flexibility in accommodating airline needs and new entrants. Both the Airline Agreement and the Ordinance include the following provisions:

- Director of Airport's (Director) authority to assign, reassign, allocate or reallocate all or a portion of an airline's premises.
- Preferential Aircraft Parking Positions — such space shall be assigned to airlines by the Director for nonexclusive use, to which an airline has priority over all other users of an apron area.
- Assignment of airline space on a Preferential Use basis — "Preferential Use" shall mean nonexclusive use, to which an airline has priority over all other users. Pursuant to this provision, the County assigns apron, loading bridge and holdroom space as preferential use.
- Director authority to authorize other airlines to use an airline's Preferential Aircraft Parking Position, loading bridges, and Preferential Use Space when such facilities are determined by the Director to not be required for the airlines' scheduled flight activities.
- Subordination of Airline Agreement to agreements between the County and the Federal Government relative to the development, operation or maintenance of the Airport System.
- Compliance with assurances required by the FAA.

FAA request: Consider developing a policy that encourages signatory carriers to employ a universal notification procedure when gates become available for sublease, as well as fair and transparent bidding or negotiating procedures.

County response: The County conducts a monthly meeting of airline managers, which provides a forum to discuss gates that are available for sublease to other airlines. Airlines that attend the monthly meeting are therefore notified and aware of available gates. For

airlines not yet serving the Airport, and therefore not attending the monthly meeting, the County is the point of contact and notification. That is, the County is aware of available gates as a result of the monthly airline managers meeting, and the County can notify any airline that expresses interest in serving the Airport.

Further, the Airline Agreement contains provisions regarding fair and reasonable access to facilities under subleases, as discussed directly below.

c. Monitoring sublease fees

The County monitors all sublease agreements to ensure that there is fair and reasonable access.

Section 3.05 of the Airline Agreement, Cross Utilization of Facilities, limits the amount of sublease fee airlines may charge under certain conditions. Under routine circumstances, airlines are allowed to independently negotiate terms for subleases of space to other airlines. In situations that require County intervention to authorize accommodation of a new airline or expanded service, the County shall not preclude the airline from recovering the proportional cost (including proportional overhead costs), plus an administrative fee of no greater than fifteen percent (15%) for such space from such authorized airline.

The County believes that the authorized administrative fee effectively limits the premium that can be assessed for sublease access to gates at the Airport. Finally, the County has common use gates available in the event that an airline is unable to reach a satisfactory sublease arrangement.

FAA recommendation: Extend the current cap on sublease fees to voluntary subleases as well.

County response: The County agrees that extending the cap to voluntary subleases would help promote fair and reasonable sublease practices. The County will consider making this change in connection with negotiations with airlines for a future Airline Agreement (following expiration of the extended Airline Agreement on June 30, 2005 or 2006). However, it should be noted that Section 3.05 of the Airline Agreement provides an effective "backstop"—if an airline cannot successfully negotiate a voluntary sublease, the County can intervene and guarantee the cap on sublease fees.

FAA recommendation: Consider developing formal procedures for resolution of disputes regarding subleasing and ground handling. We note the Airport Director's authority to act in these areas, as reported in the 2002 Update. However, an airport that has adopted fair and transparent procedures for resolving such disputes would be better positioned to facilitate entry and promote competition at its airport than one that relies on an ad hoc approach. We further recommend that the process include the four elements discussed in connection with the recommendation to adopt complaint procedures, under the heading of "Gate Availability." [See Section 1(k)]

County response: See Section 1(k) for summary of dispute resolution process.

d. Promoting the use of third-party contractors

No material changes since last update.

e. Resolution of any disputes between carriers relating to access

The County is not aware of (nor has it received any) complaints or disputes between airlines relating to access. In order to effectively deal with any potential future complaints or disputes, the County has developed a dispute resolution policy as described in Section 1(k).

3. PATTERNS OF AIR SERVICE

In the 2002 Update, data were presented to show that the Airport has competitive air service at relatively low fares, due primarily to the presence of Southwest Airlines and other low-fare carriers. As of the most recent 12 months, Southwest Airlines is still the largest carrier at the Airport, providing competitively-priced service to a range of destinations. A review of the most recent data published by DOT indicates that the Airport continues to experience low fares relative to a peer group of airports of similar size.

Attachment B provides reference data on airline traffic, market share, and airfares. Key points are summarized below.

a. Airline market shares (Table B-1)

Southwest Airlines continues to account for about one-half of the passenger traffic at the Airport. Given the relatively low fares offered by Southwest, this has ensured that the Airport continues to have competitive air service to a range of destinations. The share of the top 2 airlines (Southwest and United) has declined from 65% in 2001 to 61% in CY 2002.

b. Average daily nonstop service (Table B-2)

From CY 2001 to CY 2002, the average number of daily nonstop departures increased from 137 to 141, and the number of nonstop markets served increased from 23 to 28. This indicates that the County has been successful in continuing to accommodate expanded service for the traveling public.

c. Average daily nonstop departures by airline and city (Table B-3)

As of CY 2002, a total of 16 airlines provided service to 28 nonstop markets. This is an indication of the diversity of service and competition among airlines.

d. Changes in air service (Table B-4)

From December 2001 to December 2002, there was a net increase of 33,000 monthly nonstop seats, a combination of service to new markets and expanded service to existing markets.

e. Historical trends in airfares and yields (Table B-5)

From CY 2001 to CY 2002, the average airfare at the Airport decreased 5.3% and average yield per mile decreased 8.2%. From CY 1990 to CY 2002, the average airfare at the Airport decreased 3% per year, and the average yield per mile decreased 2.4% per year.

f. Comparative fares and yields (Table B-6)

As CY 2002, the average fare and yield at the Airport were lower than the average for a peer group of airports of similar size.

g. Comparison of average fares (Table B-7)

As of CY 2002, average fares for service to the top 10 origin-destination markets from Sacramento were comparable to those offered at alternative airports in the San Francisco Bay Area, and in many cases lower.

4. GATE ASSIGNMENT POLICY

a. Changes under extended Airline Agreement

The 2002 Update summarized the flexibility to accommodate airline requests for gates. The County can confirm that this flexibility will be retained with the extended Airline Agreements.

b. Additional information on County authority over preferential gates

Under the extended Airline Agreement, no changes have occurred since the 2002 Update regarding County authority over preferential gates.

Section 3.05 of the Airline Agreement summarizes the County's authority to authorize other airlines to use a Signatory Airline's preferential gates.

Section 3.06 of the Airline Agreement provides more detail on the process for exercising the County's authority to reassign preferential gates, as follows:

1. The Director may assign, reassign, allocate, reallocate, or relocate all or part of the preferentially leased space if determined by the Director to be in the best interest of the traveling public.
2. If the Director determines that such adjustment described above is necessary, the Director shall arrange for a discussion among affected parties to arrive at a mutually acceptable arrangement.
3. If the discussion among affected parties does not result in a satisfactory result, the Director has the authority to unilaterally accomplish the required adjustments.

The Airline Agreement provides for a process of coordination and discussion with airlines in order to make a "first attempt" at finding a solution that meets the needs of all parties. Ultimately, however, the Director has the authority to ensure that facilities are available for new airlines or existing airlines seeking to expand service.

The Airline Agreement is provided as Attachment C.

5. GATE USE ARRANGEMENTS

Gate use arrangements were summarized above in Table 1. As shown, 22 of the 28 total gates are leased on a preferential use basis, with County discretion to reassign the gates to new carriers. There are also six County-controlled common use gates available for new entrants (one of which is for international arrivals only).

6. FINANCIAL CONSTRAINTS

The County has developed facilities at the Airport in a prudent, cost-effective manner, with the result that airline costs for facilities are reasonable in relation to industry benchmarks. Given that there is currently available capacity for new airline service, there are no financial constraints to accommodating such service increases. In the longer term, any growth in demand that would require increased capacity would be expected to also provide increased airline revenue to invest in such capacity in a cost-effective manner.

The County has the authority under the extended Airline Agreement to implement new capital improvements without a majority approval by existing airlines. Nonetheless, it is the County's intent to coordinate with the airlines and pursue capital investments that meet the agreement of the airlines serving the Airport.

The County expects that a new terminal building will be constructed at the Airport in the next five years. The County is currently finalizing a Terminal Modernization Program (including a financial plan) for the Airport. In addition to analyzing various alternatives for a new terminal building, the Terminal Modernization Program contemplates the renovation of existing Airport terminal facilities. The County expects that the first phase of a new terminal building would include up to 24 gates and would be operational by 2007. The County expects that airline costs associated with a new terminal will be reasonable in relation to industry benchmarks.

Southwest Airlines and United Airlines (as representatives of the Airport/Airlines Affairs Committee) have been directly involved in the Terminal Modernization Program, as members of the Technical Advisory Committee. Additionally, all presentation materials discussed at the Technical Advisory Committee meetings are sent to all other tenant airlines. To date, the airlines are in concurrence with the proposed Terminal Modernization Program.

FAA recommendation: We encourage the County to consider the elimination of MII rights or the reduction of the deferral period in its negotiations with the carriers for a successor Operating Agreement in 2003.

County response: The extended Airline Agreement does not require a majority approval for implementation of capital projects. The extended Airline Agreement does provide that, if 67% of the airlines disapprove of a proposed capital improvement, such capital improvement may be deferred, but for no more than one year. In recent years, no significant capital improvements have been delayed or cancelled as a result of airline approval requirements. The County will consider the elimination of MII rights or the reduction of the deferral period in its negotiations with airlines for a future airline agreement (following expiration of the extended Airline Agreement on June 30, 2005 or 2006).

7. AIRPORT CONTROLS OVER AIRSIDE AND LANDSIDE CAPACITY

Since the 2002 Update, no changes have occurred in connection with Airport controls over airside and landside capacity. The Airline Agreement is the basis for County control over airside and landside capacity.

On the airside (gates), the County has the right to reassign preferential use gates, which account for the majority of the gates at the Airport. In addition, the County has five common use gates (one for international arrivals only) that are available for new entrants.

On the landside (ticketing, etc.), the County also has the right to reassign preferential space and meet the needs of airlines seeking to add service.

8. AIRPORT INTENT TO BUILD OR ACQUIRE COMMON USE GATES

The County does not have any current plans to acquire common use gates. The existing common use gates are estimated to be sufficient to accommodate new entrant airline needs in the near term. It should be noted that, as discussed previously, if demand warrants prior to the opening of a planned new terminal building discussed in Section 6 and below, the County could reconfigure Terminal B for a total of 16 gates (instead of the current configuration with 14 gates) with minimal investment. Terminal B has flexibility in terms of how loading bridges are configured.

The County expects that a new terminal building will be constructed at the Airport in the next five years. The County is currently finalizing a Terminal Modernization Program (including a financial plan) for the Airport. In addition to analyzing various alternatives for a new terminal building, the Terminal Modernization Program also contemplates the renovation of existing Airport terminal facilities. The County expects that the first phase of a new terminal building would include up to 24 gates and would be operational by 2007. The County expects that airline costs associated with a new terminal will be reasonable in relation to industry benchmarks.

Southwest Airlines and United Airlines (as representatives of the Airport/Airlines Affairs Committee) have been directly involved in the Terminal Modernization Program, as members of the Technical Advisory Committee. Additionally, all presentation materials discussed at the Technical Advisory Committee meetings are sent to all other tenant

airlines. To date, the airlines are in concurrence with the proposed Terminal Modernization Program.

9. PUBLICATION OF COMPETITION PLAN

The County currently posts (1) the first Competition Plan report submitted to the FAA in October 2000, (2) the 2002 Update submitted to the FAA in April 2002, and (3) the Airline Agreement expiring June 30, 2003 (Attachment C of the 2002 Update) on the County's web site. The County also expects to post this current competition plan update and the extended Airline Agreement immediately following submission of the current plan to the FAA.

FAA request: Indicate whether the County's original competition plan and the 2002 Update is accessible on your web site, and if so, provide its precise web address.

County response: Each of these items can be found at:
http://airports.co.sacramento.ca.us/Public%20Relations/public_relations%20index.htm

ATTACHMENT A

GUIDE TO FAA COMMENTS AND COUNTY RESPONSES

This attachment references FAA comments and questions provided in the FAA approval letter for the County's 2002 Update (dated July 8, 2002) and the specific sections of this competition plan update that address such questions and comments.

Gate Availability

1. Provide a copy of the Airline Information Package—Section 1(l)
2. Provide a detailed description and timetable for implementing an actual gate-use monitoring program—Section 1(g)
3. Provide information on the circumstances leading to the reduction of total Airport gates and the reduction of the County's common-use gates—Section 1(a)
4. Spell out procedures by which carriers may request assignment to gates—Section 1(c) and Section 1(k)
5. Spell out procedures for the submission or resolution of complaints about denial of access to facilities—Section 1(k)
6. FAA recommendations regarding complaint process procedures—Section 1(k)

Leasing and Subleasing

1. Extend cap on sublease fees to voluntary subleases—Section 2(d)
2. Suggestion regarding development of a policy encouraging airline notification of gate availability and fair/transparent negotiating procedures—Section 2(b)
3. Recommendation regarding development of formal dispute resolution procedures for subleasing and ground-handling—Section 2(c)

Financial Constraints

1. FAA recommendation to eliminate airline MII rights or reduce project deferral period—Section 6

Other

1. Post competition plan and 2002 Update on County's web site—Section 9

ATTACHMENT B
AIRLINE ACTIVITY AND SERVICE DATA

Table B-1
AIRLINE MARKET SHARES
Sacramento International Airport

	CY 2000		CY 2001		CY 2002	
	Enplaned passengers	Percent of total	Enplaned passengers	Percent of total	Enplaned passengers	Percent of total
Southwest Airlines	1,994,952	50%	2,038,192	51%	2,221,805	52%
United Airlines	627,058	16%	569,430	14%	391,627	9%
America West Airlines	278,043	7%	343,333	9%	305,391	7%
American Airlines	157,883	4%	158,150	4%	286,400	7%
Delta Airlines	250,302	6%	220,095	5%	236,243	6%
Alaska Airlines	171,019	4%	174,992	4%	184,952	4%
Northwest Airlines	112,436	3%	115,917	3%	130,106	3%
Horizon Airlines	91,819	2%	82,863	2%	94,952	2%
Continental Airlines	43,046	1%	73,104	2%	85,911	2%
Frontier Airlines	-	0%	-	0%	51,789	1%
Hawaiian Airlines	-	0%	-	0%	38,185	1%
Mexicana	-	0%	-	0%	11,090	0%
Trans World	99,254	3%	85,014	2%	-	0%
Win Air	-	0%	-	0%	-	0%
Other air carriers	2,593	0%	3,687	0%	2,281	0%
Commuter airlines	<u>124,181</u>	<u>3%</u>	<u>145,292</u>	<u>4%</u>	<u>217,192</u>	<u>5%</u>
Total	3,952,586	100%	4,010,069	100%	4,257,924	100%

Source: County of Sacramento, Department of Airports. Data shown for calendar years.

Table B-2
AVERAGE DAILY NONSTOP SERVICE
Sacramento International Airport

Airline	CY 2001		CY 2002	
	Average daily departures	Cities served	Average daily departures	Cities served
Major/national				
Southwest Airlines	61.3	9	65.5	10
America West Airlines	12.2	3	10.3	3
United Airlines	15.6	4	9.8	3
Horizon Airlines	4.9	1	6.5	3
Delta Airlines	5.1	2	5.5	3
American Airlines	4.2	2	5.5	2
Alaska Airlines	5.3	1	5.4	1
Northwest Airlines	2.9	1	2.9	1
Continental Airlines	2.0	2	2.0	1
Trans World	2.1	1	1.8	1
Frontier Airlines	-	-	1.7	1
Hawaiian Airlines	-	-	0.6	1
Mexicana	-	-	0.3	1
Commuter				
Skywest Airlines	1.8	1	2.0	1
Sunair Express	1.7	2	0.2	4
United Express/Skywest	18.2	3	21.4	3
US Airways Express	-	-	-	-
Total	137.3	23	141.4	28

Source: Official Airline Guides, Inc. Data shown for calendar years.

Table B-3
AVERAGE DAILY NONSTOP DEPARTURES BY AIRLINE AND CITY
Sacramento International Airport
CY 2002

DESTINATION	Commuter			Air Carrier														Total	# of Carriers
	SKYWEST AIRLINES	SUNAIR EXPRESS	UNITED EXP/SKYWEST	ALASKA AIRLINES	AMERICA WEST AIRLINES	AMERICAN AIRLINES	CONTINENTAL AIRLINES	DELTA AIR LINES	HORIZON AIRLINES	FRONTIER AIRLINES	HAWAIIAN AIRLINES	MEXICANA	NORTHWEST AIRLINES	SOUTHWEST AIRLINES	TWA AIRLINES LLC	UNITED AIRLINES			
ATLANTA(INTL) GEORGIA USA	-	-	-	-	-	-	-	2.6	-	-	-	-	-	-	-	-	-	2.6	1
BOISE IDAHO USA	-	-	-	-	-	-	-	-	1.7	-	-	-	-	-	-	-	-	1.7	1
BULLHEAD CITY ARIZONA USA	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	1
BURBANK CALIFORNIA USA	-	-	-	-	-	-	-	-	-	-	-	-	-	9.3	-	-	-	9.3	1
CHICAGO(O'HARE) ILLINOIS USA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.6	-	-	3.6	1
DALLAS(F.T. WORTH)(INTL) TEXAS USA	-	-	-	-	-	4.6	-	-	-	-	-	-	-	-	-	-	-	4.6	1
DENVER(INTL) COLORADO USA	-	-	-	-	-	-	-	-	-	1.7	-	-	-	-	-	-	5.2	6.9	2
EUREKA/VARCATA CALIFORNIA USA	-	-	1.8	-	-	-	-	-	-	-	-	0.3	-	-	-	-	-	1.8	1
GUADALAJARA MEXICO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3	1
HONOLULU OAHU/HAWAII USA	-	-	-	-	-	-	-	-	-	-	0.6	-	-	-	-	-	-	0.6	1
HOUSTON(INTL) TEXAS USA	-	-	-	-	-	-	2.0	-	-	-	-	-	-	-	-	-	-	2.0	1
KANSAS CITY(INTL) MISSOURI USA	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	-	-	-	1.0	1
LAS VEGAS(INTL) NEVADA USA	-	-	-	-	2.0	-	-	-	-	-	-	-	-	6.7	-	-	-	8.7	2
LOS ANGELES(INTL) CALIFORNIA USA	-	-	5.0	-	-	-	-	-	-	-	-	-	2.9	7.7	1.0	-	-	13.7	3
MINNEAPOLIS(ST. PAUL)(INTL) MN USA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.9	1
OAKLAND CALIFORNIA USA	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	1
ONTARIO CALIFORNIA USA	-	-	-	-	-	-	-	-	-	-	-	-	-	11.9	-	-	-	11.9	1
PALM SPRINGS CALIFORNIA USA	-	-	-	-	-	-	-	-	0.5	-	-	-	-	-	-	-	-	0.5	1
PHOENIX(INTL) ARIZONA	-	-	-	-	5.8	-	-	-	-	-	-	-	-	5.7	-	-	-	11.5	2
PORTLAND OREGON USA	-	-	-	-	-	-	-	-	4.3	-	-	-	-	5.0	-	-	-	9.3	2
REDDING CALIFORNIA USA	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	1
SALT LAKE CITY UTAH USA	2.0	-	-	-	-	-	-	2.9	-	-	-	-	-	-	-	-	-	4.9	2
SAN ANTONIO TEXAS USA	-	-	-	-	-	-	-	0.0	-	-	-	-	-	-	-	-	-	0.0	1
SAN DIEGO(INTL) CALIFORNIA USA	-	-	-	-	-	-	-	-	-	-	-	-	-	11.3	-	-	-	11.3	1
SAN FRANCISCO(INTL) CALIFORNIA USA	-	-	14.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14.6	1
SANTA ANA(J.WAYNE) CA. USA	-	-	-	-	2.5	-	-	-	-	-	-	-	-	2.9	-	-	-	5.4	2
SEATTLE/TACOMA(INTL) WA USA	-	0.0	-	5.4	-	-	-	-	-	-	-	-	-	4.0	-	-	-	9.4	3
ST. LOUIS(INTL) MISSOURI USA	-	-	-	-	-	0.9	-	-	-	-	-	-	-	-	1.8	-	-	2.7	2
Total	2.0	0.2	17.7	5.4	10.3	5.5	2.0	5.5	6.5	1.7	0.6	0.3	2.9	65.5	1.8	9.8	141.4	16	
Cities Served	1	4	3	1	3	2	1	3	3	1	1	1	1	10	1	3	28		

Source: Official Airline Guides, Inc.

Table B-4
CHANGES IN AIR SERVICE
December 2002 vs. December 2001
 Sacramento International Airport

<u>Increased Service</u>	<u>Airport code</u>	<u>Airline</u>	<u>Change in monthly nonstop seats</u>
New destinations			
Boise	BOI	Horizon	3,800
Guadalajara (Mexico)	GDA	Mexicana	3,800
Honolulu	HNL	Hawaiian	7,100
Palm Springs	PSP	Horizon	<u>1,600</u>
Subtotal			16,300
Existing Service		Various	<u>35,600</u>
Total			51,900
<u>Reduced Service</u>			
Eliminated destinations			
Oakland	OAK	Sunair	(500)
Redding	RDD	Sunair	(500)
St. Louis	STL	American	<u>(8,700)</u>
Subtotal			(9,700)
Continuing destinations		Various	<u>(9,200)</u>
Total			(18,900)
Net increase			33,000

Source: Official Airline Guides, Inc.

Table B-5
HISTORICAL TRENDS IN AIRFARES AND YIELDS
 Sacramento International Airport

<u>Calendar year</u>	<u>Average fare</u>	<u>Average yield</u>
1990	\$154.83	\$13.79
1991	124.08	12.10
1992	112.12	10.88
1993	114.40	11.69
1994	106.21	11.19
1995	98.92	10.89
1996	101.89	11.16
1997	105.53	11.35
1998	107.46	11.45
1999	113.13	11.86
2000	123.17	12.46
2001	113.63	11.18
2002	107.60	10.26
Average annual percent change	-3.0%	-2.4%

Source: U.S. Department of Transportation, Origin-Destination Survey, for years noted.

Table B-6
COMPARATIVE FARES AND YIELDS--AIRPORT TOTALS
Sacramento International Airport and Peer Group Airports
CY 2002 vs. CY 2001

City	CY 2002				CY 2001				Percent Change					
	Airport	pairs	Total passengers	Average fare	Yield	Average trip length	Total passengers	Average fare	Yield	Average trip length	Total passengers	Average fare	Yield	Average trip length
City	PHILADELPHIA, PA	175	12,342,930	184	16	1,181	12,374,510	202	18	1,120	-0.3%	-8.7%	-13.4%	5.5%
	MINNEAPOLIS, MN	185	12,312,970	197	18	1,086	13,182,130	194	19	1,015	-6.6%	1.2%	-4.6%	6.9%
	DETROIT, MI	165	12,285,490	163	16	1,013	13,267,600	170	18	959	-7.4%	-4.0%	-10.4%	5.7%
	OAKLAND, CA	104	11,519,680	115	12	989	10,672,800	115	14	845	7.9%	-0.3%	-17.0%	17.1%
	PORTLAND, OR	162	9,538,500	145	11	1,295	9,902,330	147	12	1,202	-3.7%	-1.4%	-6.9%	7.8%
	SAN JOSE, CA	118	9,228,860	134	13	1,069	10,419,540	146	14	1,039	-11.4%	-8.1%	-10.6%	2.9%
	ST. LOUIS, MO	158	9,205,040	150	17	873	9,867,120	159	20	810	-6.7%	-5.8%	-14.4%	7.8%
	KANSAS CITY, MO	157	8,291,610	136	14	941	8,998,520	137	16	859	-7.9%	-0.3%	-9.4%	9.5%
	MIAMI, FL	146	8,240,580	164	13	1,269	8,442,410	175	14	1,226	-2.4%	-6.7%	-7.9%	3.5%
	SACRAMENTO, CA	123	8,008,600	122	12	1,029	7,709,810	125	13	948	3.9%	-2.5%	-8.7%	8.5%
	NEW ORLEANS, LA	148	7,784,130	137	14	993	8,175,450	134	15	908	-4.8%	1.9%	-8.2%	9.4%
	SALT LAKE CITY, UT	141	7,755,780	149	13	1,146	8,414,920	144	14	1,037	-7.8%	3.0%	-7.3%	10.5%
	SANTA ANA, CA	130	7,555,210	148	13	1,119	7,060,980	163	15	1,077	7.0%	-9.2%	-11.7%	3.9%
	RALEIGH DURHAM, NC	145	7,051,970	134	14	968	7,328,100	143	16	890	-3.8%	-6.2%	-13.7%	8.8%
CLEVELAND, OH	129	6,548,700	164	17	990	7,107,590	167	18	927	-7.9%	-1.7%	-7.9%	6.8%	
NASHVILLE, TN	143	6,043,990	139	16	896	6,375,160	139	17	827	-5.2%	0.4%	-8.4%	8.3%	
Weighted Average	148	8,982,128	151	14	1,060	9,331,186	156	16	986	-3.7%	-3.5%	-10.4%	7.5%	

Source: Data provided by DOT.

Table B-7
COMPARISON OF AVERAGE ONE-WAY AIRLINE FARES
 CY 2002

<u>Top 10 Sacramento markets</u>	<u>Sacramento International</u>	<u>San Francisco International</u>	<u>Oakland International</u>	<u>San Jose International</u>
Los Angeles	\$67	\$94	\$63	\$63
San Diego	62	111	67	64
Ontario	61	114	59	60
Burbank	63	113	65	63
Seattle	84	95	81	84
Las Vegas	70	66	71	72
Portland	64	88	73	76
Phoenix	89	105	89	89
Orange County	74	112	69	75
Washington, D.C. (a)	168	277	148	210
 Average for top 10 markets	 \$84	 \$123	 \$73	 \$75
Average for all markets	108	179	102	118

(a) Washington Dulles International, Baltimore/Washington International, and Washington National airports.
 Source: U.S. Department of Transportation/Air Transport Association of America, Origin-Destination Survey
 of Airline Passenger Traffic, Domestic, for the 12 months ended December 31, 2002.

ATTACHMENT C
COPY OF EXTENDED AIRLINE AGREEMENT



SACRAMENTO INTERNATIONAL AIRPORT

AIRLINE NAME

SACRAMENTO INTERNATIONAL AIRPORT

SCHEDULED AIRLINE OPERATING AGREEMENT

AND TERMINAL BUILDING LEASE



**SACRAMENTO INTERNATIONAL AIRPORT
SCHEDULED AIRLINE OPERATING AGREEMENT
AND TERMINAL BUILDING LEASE**

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**SACRAMENTO INTERNATIONAL AIRPORT
SCHEDULED AIRLINE OPERATING AGREEMENT
AND TERMINAL BUILDING LEASE**

This Scheduled Airline Operating Agreement and Terminal Building Lease (hereinafter "Agreement") is made and entered into this ____ day of _____, 2002 by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter "County"), and XXXX Airlines, Inc., a corporation organized and existing under the laws of the State of XXXX, and authorized to do business in the State of California (hereinafter "Airline");

W I T N E S S E T H:

WHEREAS, County is the owner and operator of the Airport System located in Sacramento County, California, and has the right to lease portions of this Airport System and to grant operating privileges at airports within the Airport System subject to specified terms and conditions; and

WHEREAS, Airline is a corporation primarily engaged in the business of providing air transportation with respect to persons, cargo, and mail; and

WHEREAS, both County and Airline desire to enter into this Agreement to set forth the rights, privileges, and obligations of both parties with respect to the leased portions of the Airport, and to grant operating privileges at the Airport subject to the terms and conditions hereinafter set forth; and

WHEREAS, both County and Airline desire to enter into this Agreement also to facilitate the development, promotion, and improvement of air commerce;

NOW, THEREFORE, County and Airline agree as follows:

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ARTICLE 1

DEFINITIONS

Section 1.01. Definitions

When used elsewhere in this Agreement the words and phrases in this Section 1.01 shall have the following meanings:

- A. "Air Transportation" shall mean the carriage of persons, property, cargo, baggage, or mail by aircraft.
- B. "Aircraft Arrivals" shall mean any and all landings by aircraft at the Airport and Mather Airport but shall exclude any landings by aircraft owned or operated by the U.S. Government.
- C. "Aircraft Gate" shall mean those aircraft loading positions shown on Exhibits A-2 and A-3 as they now exist or as they may hereinafter be modified or changed.
- D. "Airport" shall mean Sacramento International Airport as it exists as of the effective date of this Agreement and as it may be changed from time to time in the future.
- E. "Airport System" shall mean Sacramento International Airport, Executive Airport, Mather Airport, Franklin Field, and any other aviation facility as may be from time to time owned or operated by County and designated by the County to be part of the Airport System.
- F. "Airport System Cost Centers" shall mean the following cost centers, more fully described in Exhibits B1 and B2, to be used in accounting for Airport System revenues and expenses and for calculating and adjusting certain rentals and fees described herein:
 - 1. "Airfield Area" shall mean those areas on the Airport, as they now exist or as they may hereafter be modified, changed, or developed, that provide for the landing, takeoff, taxiing, parking (other than in the Apron Area), or other

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operations of aircraft. The Airfield Area includes the runways, taxiways, approach and clear zones, safety zones, infield areas, landing and navigational aids, and other facilities and land areas (including but not limited to runway protection zones and noise protection zones as established by the County) at the Airport required by or related to aircraft operations.

2. "Apron Area" shall mean the areas dedicated to parking, servicing, and ground handling of aircraft at the Airport.

3. "Loading Bridges" shall mean any loading bridges owned or leased by County serving aircraft at the Terminal Buildings.

4. "Terminal Building" shall mean the terminal buildings at the Airport (including Terminal A, Terminal B, and the Commuter Terminal Building) serving the airlines, together with the associated concourses and the Central Public Service Building as they now exist or as they may hereafter be reconstructed, modified, changed or developed.

5. "Parking and Roadways" shall mean the access roads, roads, automobile parking areas and other areas (excluding Airfield Area) surrounding the passenger Terminal Buildings as such areas now exist or as they may hereafter be modified, changed or developed.

6. "Reliever Airports" shall mean the system of general aviation airports, other than the Airport, owned or operated by County, as such system now exists or as it may hereafter be modified, changed or developed. The Reliever Airports currently include Executive Airport, Mather Airport and Franklin Field.

7. "Other Buildings and Areas" shall mean those portions of the Airport System not included in the preceding Airport System Cost Centers, including the facilities, installations and improvements thereon as they now exist, or as they may hereafter be modified, changed or developed, and any other interest owned by the County in real property with regard to the Airport.

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G. "Airport System Purpose" shall mean any action or undertaking by County directly or indirectly related to the development and preservation of the Airport System for air commerce.

H. "Airport System Revenue" shall mean all gross income and revenue received by the County from the ownership or operation of the Airport System, including all rents, fees and charges received by the County for the use of the Airport System, all investment income (other than investment income from amounts or deposits in the Capital Improvement Fund, the Acquisition and Construction Fund and any Capitalized Interest Account) and all proceeds of insurance covering business interruption loss relating to the Airport System and all other income and revenue howsoever derived by the County from the ownership or operation of the Airport System or arising from the Airport System, but excluding (i) any gifts, grants or other amounts the use of which is restricted by the donor or grantor by law or regulation, (ii) any receipts derived from Special Facilities to the extent the receipts are pledged to secure the financing of the Special Facilities, (iii) the proceeds of any passenger facility charge or other per-passenger charge hereafter established by or for the County, (iv) the proceeds from the sale, transfer or other disposition of title to all or any part of the Airport System, (v) the proceeds of any court or arbitration award or settlement in lieu thereof received by the County, and (vi) the proceeds of any securities offering.

I. "Annual Bond Debt Service" shall mean the total amount required to be deposited in any Fiscal Year to any Interest, Principal or Sinking Fund Accounts established by the Bond Resolution for any Bonds issued for the Airport System.

J. "Airport System Budget" shall mean the Airport System annual capital and operating budget prepared, and periodically revised and updated, by the Director and submitted to the County Executive prior to the commencement of the Fiscal Year in which it is to apply.

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K. "Bonds" shall mean any bonds issued in accordance with the Bond Resolution.

L. "Bond Resolution" shall mean any ordinance or resolution, heretofore or hereafter adopted, amendatory or supplemental thereto, authorizing the issuance of bonds or other securities or obligations which are payable from or secured by all or any part of the gross revenues of the Airport System.

M. "Capital Improvement" shall mean any single item having a net cost in excess of two hundred thousand dollars (\$200,000) and a useful life in excess of five (5) years, acquired, purchased or constructed to improve, maintain or develop the Airport System, as well as any extraordinary or substantial expenditure whose object is to preserve, enhance or protect the Airport System.

N. "Coverage" shall mean, for any series of Bonds, a given percentage of the Annual Bond Debt Service that shall accrue during any given Fiscal Year and shall also mean the dollar amount computed by multiplying such percentage to set the maximum Annual Bond Debt Service.

O. "Date of Beneficial Occupancy" shall mean October 26, 1999 which was the date Terminal A, or such successor name for this facility as may be designated by the Director, was ready for occupancy by Airline for the conduct of Air Transportation.

P. "Director" shall mean the person holding the position of Director of Airports of County or any other person designated by Director to exercise functions with respect to the rights and obligations of the Director as specified in this Agreement.

Q. "Exclusive Use Space" shall mean that space set forth in Exhibit A-1 and leased by County to Airline for Airline's sole use.

R. "FAA" shall mean the Federal Aviation Administration of the United States Government or any federal agency or agencies succeeding to its jurisdiction.

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S. "Fiscal Year" shall mean the twelve (12) month period beginning July 1 of any year and ending June 30 of the following year or any other period adopted by County for its financial affairs.

T. "General Fund of the County" shall mean the fund by that name existing in the treasury of the County created under applicable law.

U. "Joint Use Formula" shall mean a formula that is used to prorate charges for a particular jointly used service or space according to the ratio of the number of each airline's enplaning passengers at the Airport during the most recent month for which such information is available to the total number of enplaning passengers of all airline users at the Airport during that same month or such other formula as may be agreed upon by all Signatory Airlines using that service or space.

V. "Joint Use Space" shall mean that space set forth in Exhibits A-1 and A-3 and leased by County to Airline for shared use with one or more other airlines.

W. "Maintenance and Operation Expenses" shall mean all costs paid or incurred by the County for maintaining and operating the Airport System, including all expenses of maintenance and repair and other expenses necessary to maintain and preserve the Airport System in good condition and working order, and including all administrative costs of the County that are charged directly or apportioned to the operation of the Airport System, such as salaries and wages of employees, overhead, insurance, taxes (if any), insurance premiums, capital outlays (excluding Capital Improvements), judgments, assessments (including assessments for flood control) and cost of defending or settling litigation or threatened litigation, and including all other costs of the County or charges required to be paid by it to comply with the terms of the law or of Bonds, including but not limited to compensation, reimbursement and indemnification of the Fiscal Agent, Letter of Credit fees, Credit Facility fees and expenses of Independent Certified Public Accountants and Airport Consultants and other fees and expenses related to the issuance of Bonds which are not paid from the proceeds

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of Bonds; but excluding any payments of Debt Service and excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or any other bookkeeping entries of a similar nature.

X. "Maximum Gross Landing Weight" shall mean that maximum certificated weight, in thousand (1,000) pound units, of each aircraft authorized by the FAA to land at an airport in the Airport System as recited in Airline's flight manual governing that aircraft type.

Y. "Preferential Use" shall mean nonexclusive use, to which an airline has, priority over all other users, subject to the terms and conditions of this agreement, in common with others.

Z. "Preferential Aircraft Parking Position" shall mean the nonexclusive use, to which an airline has priority over all other users, subject to the terms and conditions of this Agreement of an Apron Area, or portion thereof, at Airport designated or allocated by the Director to Airline for Airline's use, in common with others, for the parking of aircraft owned or operated by Airline. The preferential use Apron Area is more fully set forth in Exhibit A-1.

AA. "Preferential Use Space" shall mean that space that is not Exclusive Use Space or Joint Use Space in which Airline has priority over all other users, subject to the terms and conditions of this Agreement, thereof and as set forth in Exhibit A-1.

BB. "Public Areas" shall mean those Terminal Building areas not leased on an exclusive or joint use basis, or otherwise, to any person, company or corporation, that are open to the general public. Such areas are shown in Exhibit D.

CC. "Public View Areas" shall mean those areas within the Terminal Building which are reasonably expected to be seen by the general public when in the Terminal Building.

DD. "Rules and Regulations" shall mean those rules and regulations promulgated by the County or Director, governing conduct on and operations at any airport within the

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Airport System and use of any of the facilities of the Airport System, but shall not include those rules and regulations from which Airline is expressly excluded from compliance, by Director or by this Agreement.

EE. "Signatory Airlines" shall mean those airlines providing Air Transportation to and from an airport in the Airport System that have executed agreements with County or permits issued by the Director covering the use and occupancy of facilities and Air Transportation operations at an airport in the Airport System.

FF. "Special Purpose Facility" shall mean any specific improvement undertaken by County for the benefit of one or more airlines or other Airport tenants under the terms of an agreement that provides for, among other things, (a) the payment of rentals or fees for the use or occupancy thereof in sufficient amounts to permit the financing of such improvement solely from such rentals or fees, and (b) the payment of the maintenance and operation expenses of such improvement by the airline(s) or tenant(s) thereof.

GG. "Total Landed Weight" shall mean the sum of the Maximum Gross Landing Weight for all Signatory Airlines Aircraft Arrivals over a stated period of time. Said sum shall be rounded up to the nearest thousand (1,000) pound unit for all landing fee computations.

HH. "Usable Space" shall mean all areas in the Terminal Building including open areas below concourses, and those reasonable areas designated by the Director in writing. Usable Space shall exclude areas used for mechanical and utility installations.

Section 1.02. Cross-References

All references to articles, sections, and exhibits in this Agreement relate to material in this Agreement unless specifically noted otherwise.

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ARTICLE 2

TERM

Section 2.01. Term

This Agreement shall become effective upon the first day of the month immediately following execution by County and Airline and, unless sooner terminated in accordance with the provisions of this Agreement, shall expire June 30, 2003.

Section 2.02. Surrender of the Premises

County shall give no notice to quit possession at the expiration date of the term of this Agreement. Airline covenants and agrees that on expiration of the term of this Agreement, or on earlier termination as hereinafter provided, or on reassignment of the premises to others as hereinafter provided, it will peaceably surrender possession of the premises leased hereunder in good condition, reasonable wear and tear, acts of God, fire and other casualties excepted, and County shall have the right to take possession of said premises.

Airline shall have the right, on termination or reassignment and within thirty (30) days thereafter, to remove all trade fixtures, equipment and other personal property installed or placed by it at its expense, in, on or about the Airport, subject to any valid lien that County may have thereon for unpaid rentals or fees. All County property damaged by, or as the result of, the removal of Airline's property shall be restored by Airline, at its own expense, to the condition existing prior to such damage.

Airline shall not abandon any of its property on the premises. Any and all property not removed by Airline within thirty calendar days from termination or reassignment shall be disposed of by the County and all direct and indirect costs associated with the disposal shall be paid by Airline.

This Section 2.02 shall survive the expiration or termination of this Agreement.

ARTICLE 3

RIGHTS, SPECIFIC PRIVILEGES, AND PREMISES

Section 3.01. Use of the Airport

The parties agree that the purpose of this Agreement is to enable Airline to provide Air Transportation using Airport facilities. Consistent with this purpose, Airline, its officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, and suppliers shall have the right to the use (in common with other authorized users) of the Airport and appurtenances, together with all facilities, improvements, equipment, and services that have been or may hereafter be provided for use at or in connection with the Airport, subject to the Rules and Regulations and the terms of this Agreement.

Section 3.02. Specific Rights of Airline at the Airport

Consistent with the purpose set forth in Section 3.01, and subject to the Rules and Regulations of County, Airline shall have the right to use the Airport for the following:

A. The operation of an Air Transportation business using aircraft for the carriage of persons, property, cargo, baggage, and mail, including all activities reasonably necessary to such operation.

B. The landing, taking off, flying over, taxiing, pushing, towing, loading, unloading, delivering fuel to aircraft, repairing, maintaining, conditioning, servicing, parking, storing, and testing of aircraft or other equipment of or operated by Airline or others, including the right to provide or handle all or part of the operations or services of such others. For operations handled by Airline on behalf of others or service provided to others, Airline shall pay the County a five percent (5%) concession fee as established by the Director based on the gross revenues derived by Airline from such others. Those who demonstrate to the satisfaction of the Director that they are a subsidiary of one of the Signatory Airlines shall be exempt from this fee.

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C. The sale of tickets, documentation of shipments, handling of reservations, and the loading and unloading of persons, property, cargo, baggage, and mail at the Airport in the operation of Airline's Air Transportation business.

D. This Agreement does not convey any rights to Airline to provide commercial ground transportation services to any person upon payment of any fee or charge. However, so long as all applicable ground transportation ordinances, laws, rules and regulations are complied with, Airline may provide, directly or by agreement with third parties, prearranged ground transportation services for its employees, or passengers who must be transported to or from the Airport due to weather or other extraordinary event, without the imposition by the County of any ground transportation fees or other charges in addition to those specified in this Agreement, provided that approval of the Director is secured in advance of such transportation. If a third party is utilized to provide such ground transportation services, then Airline shall provide (or cause to be provided) documentation that the third party's transportation was provided exclusively to Airline's employees, or passengers who must be transported to or from the Airport due to weather or other extraordinary event, to the satisfaction of the Director, to receive an exemption from the County of its ground transportation fees and other charges.

E. The training at the Airport of employees of Airline. Training is to be limited to that incidental to Airline's Air Transportation business at the Airport or other Airport System airports. Flight training and testing of aircraft and other equipment shall be undertaken by Airline only with the prior written approval of the Director, and to the extent permitted by, and subject to, the conditions of the Rules and Regulations.

F. The purchase of Airline's requirements of personal property, services, food, beverage, other passenger supplies, and any other materials and supplies used by Airline that are incidental to the operation of Airline's Air Transportation business.

G. The sale, disposal and exchange of Airline's aircraft, engines, accessories and other equipment, and materials or supplies (excepting fuel and lubricants), provided

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that (1) such items are not otherwise available on the Airport from a vendor other than another airline, and (2) such right shall not be construed as authorizing the conduct of a separate regular business by Airline, but as permitting Airline to perform only such functions as are incidental to the operation of its Air Transportation business.

H. The servicing by Airline, or by its suppliers of materials, or furnishers of services, of aircraft and other equipment operated by Airline including the provision of line maintenance, or other materials or supplies, on Exclusive Use Space or Preferential Use Space or at assigned Aircraft Gates or other locations designated by the Director.

I. The installation and operation of identifying signs, posters, and graphics on Airline's leased premises, subject to the prior written approval of the Director. Such signs shall be substantially uniform in size, type and location with those of other airlines, consistent with County's graphic standards and the Rules and Regulations, and in compliance with all applicable laws and ordinances.

J. The installation, maintenance and operation of such radio, meteorological, and aerial navigation equipment and facilities at suitable locations on the Airport System airport as may be necessary or convenient in the opinion of Airline for its operations; provided that (1) the location of such equipment and facilities shall be subject to the prior written approval of County; (2) the use and location of such equipment and facilities shall not conflict with other similar equipment and facilities on Airport System airport; and (3) the use and location of such equipment and facilities on the Airport shall be subject to payment of standard rental rates established for such use of the Airport.

K. The installation, maintenance and operation of passenger clubs, lounges or VIP rooms in Airline's Exclusive Use Space or Preferential Use Space, provided that such right shall not be construed as authorizing the conduct of a separate regular business by Airline, but as permitting Airline to perform only such functions as are incidental to the operation of its Air Transportation business. An Airline may sell food, beverages, merchandise, telecommunication services or any other item, only in its clubrooms or VIP

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rooms and may only do so if the Airline pays the County the same percentage fees as County receives from its concessionaires of food, beverages, merchandise, telecommunication services or other items at Airport. An Airline shall not provide, without charge, food, beverages, merchandise, telecommunication services or any other item, unless the Airline purchases such items from the County's concessionaires or unless prior written permission to provide such items without charge is obtained from the Director.

L. The installation, maintenance and operation of computer data lines, telephone communications equipment and associated conduits, and telephone communications switchgear and support computers at suitable locations on the Airport, as may be necessary or convenient in the opinion of Airline for its operations; provided that (1) the location of such equipment shall be subject to the prior written approval of the Director, (2) the use and location of such equipment shall not interfere with the use of other similar equipment on the Airport, and (3) the use and location of such equipment on the Airport shall, if not on Exclusive Use Space, Preferential Use Space, or Joint Use Space, be subject to payment of such nondiscriminatory reasonable fee or charge as may lawfully be established by County for such use of the Airport by Airline.

M. Nothing in this Section 3.02 shall restrict County from requiring a permit and levying a charge on any person or company for conducting business at the Airport. Furthermore, County intends to levy a charge for such business conducted at Airport, including Airline's provision of non Air Transportation services to others, except for ground transportation services provided free of any fee or charge as set forth in Section 3.02 (D) of this Agreement.

Section 3.03. Limitations on Use of Airport

In connection with the exercise of Airline's rights under this Agreement, neither Airline nor any of its agents, employees, directors, officers, contractors, invitees, licensees, or representatives shall:

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A. Do anything that may interfere with the effectiveness or accessibility of the drainage and sewage system, electrical system, air conditioning system, fire protection system, sprinkler system, alarm system, fire hydrants and hoses, if any, installed or located on or within the premises of Airport-System airport.

B. Do anything that may invalidate or conflict with any fire or other casualty insurance policies (copies of which, together with premium schedules, shall be furnished to Airline on request) covering the Airport or any part thereof.

C. Dispose of any waste material or any product used (whether liquid or solid) with respect to its aircraft into the sanitary or storm sewers at the Airport unless such waste material or products are disposed of in full and complete compliance with all federal (including the Environmental Protection Agency), State and County laws for disposal of these waste materials and products. Prior to any disposal of waste materials or products, Airline shall first obtain the written approval of Director to such disposal method. The written approval of the Director shall not relieve Airline of full responsibility and liability for the disposal of any waste materials or products. It is understood between the parties hereto that the Director may withhold approval for any reason under this provision.

D. Keep or store, at any time, flammable or combustible liquids except in storage facilities especially constructed for such purposes in accordance with federal, State, and County laws including the Uniform Fire Code and the Uniform Building Code. For purposes of this Agreement, flammable or combustible liquids shall have the same definitions as set forth in the most recent Uniform Fire Code.

E. Do anything that may be in conflict with FAR Part 139 or jeopardize the Airport's operating certificate.

F. Do anything that may be in conflict with the Airport's FAA approved security plan.

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Section 3.04. Airline Space

A. Subject to the Director's ability to reassign as provided for in this Agreement, Airline hereby leases the following areas:

Exclusive Use Space	XXX square feet
Preferential Use Space	XXX square feet
Joint Use Space	XXX square feet

The locations of the above spaces, are delineated in Exhibits A1, A2 and A3.

B. Preferential Aircraft Parking Positions shall be assigned to Airline by the Director on a preferential, nonexclusive use basis. Subject to the Rules and Regulations, Airline shall use its preferential nonexclusive aircraft parking positions for servicing and fueling of aircraft, and loading and unloading passengers, baggage, cargo, property, and mail at the Airport.

C. Airline shall use its Exclusive Use Space and Preferential Use Space for office purposes and the sale of Air Transportation, handling, ticketing, billing and manifesting of passengers, baggage, cargo, property and mail in the conduct of its business of Air Transportation or on behalf of any other Air Transportation company authorized by Director to use the Airport. The use of such Exclusive Use Space may also include use as an Airline clubroom.

D. Airline shall use its Joint Use Space for purposes designated for such joint use area by Director.

Section 3.05. Cross Utilization of Facilities

Director may authorize other airlines to use Airline's Preferential Aircraft Parking Position, loading bridges, and Preferential Use Space when such facilities are determined by the Director to not be required for Airline's scheduled flight activities. In no event shall Director assign Airline's Preferential Aircraft Parking Position, loading bridges and Preferential Use Space to another airline that would interfere with Airline's flight schedule as reported to County. In the event of a

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flight delay, the originally assigned Airline's flight schedule shall take precedence. Director shall give notice to an Airline's representative at Airport of any such authorization. In such event, County shall not preclude Airline from recovering the proportional cost (including proportional capital and overhead costs), plus an administrative fee of no greater than fifteen percent (15%), for such space from such authorized airlines.

Section 3.06. Reassignment of Premises

A. As determined by the Director to be in the best interest of the traveling public, the Director may assign, reassign, allocate, reallocate, or relocate all or part of Airline's premises referred to in Section 3.04.

B. If it becomes necessary to make adjustments in Airline's Exclusive Use Space, Preferential Use Space, or Joint Use Space, the Director shall arrange for all parties holding affected space to discuss reassignment, reallocation, or relocation of their space among themselves. If the parties do not reach agreement within thirty (30) calendar days from the time the Director requests such discussions, the Director is authorized to make such decisions regarding reassignment, reallocation, or relocation for each of the parties (including Airline). If the Director makes decisions (which shall be written) regarding reassignment, reallocation, or relocation of Airline's leased premises, Airline shall not be required to:

1. Incur any expense to relocate its operation to other premises that it does not agree to incur.
2. Accept premises not reasonably comparable to their current space based upon conditions at the Airport from either a competitive standpoint or an operational standpoint.
3. Pay at its new location rental rates in excess of that amount that it would have been required to pay in its original leased premises.

C. If the Director decides to proceed with reassignment, reallocation, or relocation of Airline's leased premises, the Director shall:

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1. Give Airline forty-five (45) calendar days notice of its reassignment, reallocation, or relocation.
2. Reimburse Airline for the undepreciated book value, on a straight-line basis, as determined by Director, of Airline's improvements in the space vacated.
3. Provide space similar in design, function and finish to the space from which Airline would be reassigned with Airline not responsible for the cost of any necessary improvements of the Airline to which it would be reassigned.

Section 3.07. Employee Parking Facilities

Airline shall have the right to the use of reasonably adequate vehicular parking facilities at the Airport for its employees, employed at the Airport, in common with employees of other airlines and Airport-related services. Such facilities shall be located in an area designated by the Director. County reserves the right to assess a reasonable charge for such employee parking facilities, provided that County shall give 30 days prior written notice to Airline prior to the effective date of any increase in such parking fees. Airline shall pay, as Additional Rent, all employee parking charges for their employees using Airport parking facilities. Airline shall, on request of the Director, provide verification that it is only providing parking for its employees employed at Airport.

Section 3.08. Access

A. Subject to the terms of this Agreement, the Rules and Regulations, and such restrictions as Airline may impose with respect to its Exclusive Use Space, County hereby grants to Airline, its officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, and suppliers, the right and privilege of access, ingress and egress to the Terminal Building.

B. The ingress and egress provided for in Section 3.08(A) shall not be used, enjoyed or extended to any person engaging in any activity or performing any act or

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furnishing any service for or on behalf of Airline that Airline is not authorized to engage in or perform under the terms of this Agreement unless that person is expressly authorized by Director.

C. Director shall have the right at any time to close, relocate, reconstruct, change, alter or modify any such means of access provided for Airline's use pursuant to this Agreement or otherwise, either temporarily or permanently, provided that reasonable notice to Airline and a reasonably convenient and adequate means of access, ingress and egress shall exist or be provided in lieu thereof. County shall suffer no liability by reason thereof, and such action shall in no way alter or affect any of Airline's obligations under this Agreement.

ARTICLE 4

CAPITAL IMPROVEMENTS

Section 4.01. Review of Capital Improvements

It is the intent of the parties hereto to establish a procedure that will allow the timely review of anticipated Capital Improvements by Airline.

A. If County decides to undertake a Capital Improvement, the costs of which are to be funded by the inclusion of the purchase price, the construction cost, Coverage on Bonds, or lease payments in the rents or fees of Airline, County shall submit a report on such Capital Improvement to Airline. The report shall include the following:

1. A description of the proposed Capital Improvement together with cost estimates and any available preliminary drawings.
2. A statement of the need for such Capital Improvement.
3. A statement of the benefits to be derived from such Capital Improvement.
4. The allocation of the cost thereof to the various Airport System Cost Centers.
5. County's preferred means of financing the cost and the Fiscal Year in which the cost will be included in Airline's rents or fees.

B. Within a reasonable time, but no later than forty-five (45) calendar days after distribution of the report, Airline shall meet with the Director to discuss the subject Capital Improvement. The subject Capital Improvement shall be deemed approved unless, within sixty (60) calendar days after distribution of the report, concurrence is specifically withheld, in writing, by at least sixty-seven percent (67%) of the airlines in number and who together paid more than sixty- seven percent (67%) of the landing fees, Terminal Building rental fees, Loading Bridges fees, and Preferential Aircraft Parking

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Position fees, at the Airport and Mather Airport during the most recent twelve month period for which such data is available.

C. If, at the meeting, at least sixty-seven percent (67%) of the airlines in number and who together paid more than sixty-seven percent (67%) of the landing fees, Terminal Building rental fees, Loading Bridges fees, and Preferential Aircraft Parking Position fees at the Airport and Mather Airport during the most recent twelve month period for which such data is available, does not concur with the subject Capital Improvement, the Director shall convene a second meeting at which the Director will respond to questions raised during the first meeting, and provide any previously requested information concerning the subject Capital Improvement. If following this second meeting, the Director ultimately concludes that the aforesaid airlines comprising at least sixty-seven percent (67%) of the airlines in number and who together paid more than sixty-seven percent (67%) of the landing fees, Terminal Building rental fees, Loading Bridges fees, and Preferential Aircraft Parking Position fees at the Airport and Mather Airport during the most recent twelve month period for which such data is available, still do not concur with said Capital Improvement, then the subject Capital Improvement shall be deferred until the ensuing Fiscal Year after such second meeting. In such ensuing Fiscal Year, County may implement such Capital Improvement and include the amortization, debt service (including Coverage), loan payments and other costs associated with such Capital Improvement in the calculation of Airline's rentals and fees. Under this provision the proposed Capital Improvement will be deferred for a minimum of 12 months after the date that the report referred to in Section 4.01 (A) is distributed.

D. Even if concurrence in any proposed Capital Improvement is withheld, if County determines that such Capital Improvement is necessary or prudent to ensure compliance with a rule, regulation, or order of any federal, State, or other governmental agency that has jurisdiction over the operation of the Airport, then County may implement, without waiting until the ensuing Fiscal Year, such Capital Improvement.

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Upon completion of the Capital Improvement, the County may include the amortization, debt service (including Coverage), or loan payments for such Capital Improvement in the calculation of Airline's rentals and fees.

E. Notwithstanding the foregoing procedure, County, at any time, may implement any proposed Capital Improvement if the amortization, debt service (including Coverage), loan payments, and other costs associated with such Capital Improvement are not to be included in the calculation of Airline's rentals and fees. In such circumstances all revenues associated with such Capital Improvement shall not be included the calculation of Airline's rentals and fees.

Section 4.02. Approved Capital Improvements

The Capital Improvements identified on Exhibit C are exempt from the review procedures of Section 4.01.

ARTICLE 5

RENTALS AND FEES

Section 5.01. Consideration

The consideration that Airline agrees to provide County for leasing Exclusive Use Space, Preferential Use Space, Loading Bridges, Preferential Aircraft Parking Positions, and Joint Use Space under this Agreement includes, but is not limited to, the following: (1) providing regularly scheduled Air Transportation to and from the Airport (excluding interruptions which result from governmental action, or during periods of labor disputes or as a result of damage or destruction of facilities in accordance with Section 9.01); (2) paying the rentals and fees described in this Agreement without deduction or setoff; and (3) pursuant to FAR Part 158, or its successor provision, paying the proceeds of Passenger Facility Charges and providing the County with the Airline's annual Passenger Facility Charge Report as prepared by Airline's Independent Auditor within ninety (90) days of the close of Airline's fiscal year. County may, but is not required to, provide a courtesy notice requesting Airline's annual Passenger Facility Charge Report. Without limiting any other rights and remedies available to County under this Agreement and under law, failure to provide any of the above delineated consideration shall permit County to terminate this Agreement on ten (10) days advance written notice. In the event County terminates this Agreement pursuant to this Section 5.01, Airline shall have no further liability to County hereunder except for liabilities incurred prior to the termination date.

Section 5.02. Terminal Building Rentals, Loading Bridge Use Fees, and Preferential Aircraft Parking Position Fees

A. Airline shall pay County the following rentals and fees on the first day of each month in advance: Terminal Building rentals, Loading Bridge Use Fees, and Preferential Aircraft Parking Position Fees. All other fees set forth herein shall be due within thirty (30) calendar days of transmittal of an invoice therefor.

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The rental rates per square foot shall be calculated and recalculated annually in accordance with Article 6.

The rental for all Joint Use Space shall be prorated in accordance with the Joint Use Formula, using passenger enplanement statistics for the most recent six-month period for which such statistics are available.

Annually, following calculation of any adjustments, Director shall provide Airline with a statement of the monthly rental payments required for the ensuing year.

B. At the commencement of the term of this Agreement, Airline shall pay to County, for Exclusive Use Space, Preferential Use Space, and Joint Use Space the following sums:

1. For ~~XXX~~ square feet of Exclusive Use Space, a monthly sum of ~~\$0.00~~, computed at the Terminal Building Rental Rate currently \$4.55 per square foot per month.

2. For ~~XXX~~ square feet of Preferential Use Space, a monthly sum of ~~\$0.00~~, computed at the Terminal Building Rental Rate currently \$4.55 per square foot per month.

3. For Airline's prorated share of ~~XXX~~ square feet of Joint Use Space, a monthly sum of ~~\$0.00~~ computed at the Terminal Building Rental Rate, currently \$ 4.55 per square foot per month. Airline's prorated share is determined in accordance with the Joint Use Formula.

4. County may, if requested in writing by at least sixty-seven percent (67%) of the airlines in number and who together paid more than sixty-seven percent (67%) of the landing fees, Terminal Building rental fees, Loading Bridges fees, and Preferential Aircraft Parking Position fees at the Airport during the most recent twelve month period for which such data is available, establish rental rates based upon the category of space being leased (i.e., ticket counters, office, baggage, makeup, holdroom, storage, etc.).

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C. Upon commencement of the term of this Agreement, the initial Loading Bridge Use Fee shall be a monthly sum computed at the current rate of Four Thousand Two Hundred Ninety-Nine and No/100 Dollars (\$4,299.00) per month per loading bridge. Thereafter, the Loading Bridge Use Fee shall be calculated and recalculated annually in accordance with Article 6, and shall cover the use by Airline of the assigned loading bridge.

D. Upon commencement of the term of this Agreement, the Preferential Aircraft Parking Position Fee shall be a monthly sum of Six Thousand One Hundred Twenty-Nine and No/100 Dollars (\$6,129.00) per aircraft parking position. Thereafter, the Preferential Parking Position Fee shall be calculated and recalculated annually in accordance with Article 6, and shall cover the use by Airline of the assigned aircraft parking positions and associated apron.

Section 5.03. Landing Fees

A. Following the effective date of this Agreement, rentals and fees for the use of the other facilities, rights, licenses and privileges granted to Airline under Article 3, except as provided elsewhere herein, shall be combined in and represented by a monthly landing fee (herein referred to as "Landing Fee"), subject to adjustment pursuant to Section 6.07. The Landing Fee rate per one thousand (1,000) pounds shall be multiplied by the Maximum Gross Landing Weight of all Airline's aircraft arrivals for the month. The Landing Fee rate for Fiscal Year 2001/2002 is \$ 1.57 per one thousand (1,000) pounds of landed weight (which rate shall be adjusted upward or downward based upon the Airport System Budget) or Eight Dollars (\$8.00) per Airline Aircraft Arrival, whichever is greater.

B. Airline shall furnish to Director on or before the tenth (10th) day of each month an accurate verified report detailing operations for the previous month and for the Fiscal Year to date, on forms prescribed by Director. Airline shall remit payment of

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Landing Fees for Airline's operations at the Airport no later than the 10th day of the second month following the month of Airline's operations. The report and payment shall be delivered or mailed, postage prepaid, to the Director. Said report shall include, but need not be limited to: (1) Airline's total number of Aircraft Arrivals, by type of aircraft and Maximum Gross Landing Weight of each type of aircraft; (2) the total number of enplaning and deplaning passengers; and (3) the total weight of freight, mail and other cargo for such month. The acceptance by County of any payment made by Airline shall not preclude County from verifying the accuracy of Airline's report submitted to County as provided in this Section 5.03, or from recovering any additional payment actually due from Airline.

C. If Airline fails to furnish County with the report required by Section 5.03(B), Airline's Landing Fee shall be determined by assuming that the Total Landed Weight for Airline during the preceding month was 125% of the Total Landed Weight for the most recent month for which such figure is available. Any necessary adjustment in such Landing Fee shall be calculated after the required report is delivered to County by Airline for the month in question, and resulting surpluses or deficits shall be applied to Airline's Landing Fee for the next succeeding month. An accounting fee of fifteen percent (15%) of the amount due as shown on such required report, or such lesser accounting fee as may be determined by the Director to be sufficient to reimburse the County, shall be payable by Airline for the additional services required of County pursuant to this Section 5.03(C).

Section 5.04. Additional Rent

County, after due notice to Airline, may, but is not obligated to, cure any default on Airline's part in fulfilling Airline's covenants and obligations under this Agreement. Any amounts paid or lawful costs incurred by County to cure any such default(s) are hereby agreed to and declared to be Additional Rent. Unless otherwise provided herein, all Additional Rent shall be due and payable with the next succeeding installment of monthly rent due under this Agreement.

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Section 5.05. Passenger Facility Charges

Airline agrees to faithfully collect and promptly remit to County (without notice or demand by County and in accordance with FAR Part 158) the proceeds of the County's Passenger Facility Charge so long as the County has an FAA approved Passenger Facility Charge in effect. Airline shall pay the County interest for late payment of Passenger Facility Charge proceeds to County in accordance with Section 5.06. Further, both Airline and County hereby covenant to fulfill their responsibilities under the terms of FAR Part 158. If legislation and regulations, in effect on the date of this Agreement, governing passenger facilities charges, use fees, or similar charges on Airline's passengers using the Airport are amended, changed, or eliminated during the term of this Agreement, the County reserves the right to appropriately adjust such charges, levy new charges, revise charges, or implement additional charges as determined by the County to be necessary.

Section 5.06. Liquidated Damages on Overdue Payments

Without waiving any other right available to County in the event of default in Airline's payment of rentals, fees or charges under this Agreement, including Passenger Facility Charge proceeds, in the event that Airline is delinquent for a period of seven (7) calendar days or more from the date when due in paying County any such rentals, fees or charges, Airline shall pay County liquidated damages thereon, from the date such rents, fees or charges become payable to the date of payment at the rate of one and one-half percent (1.5%) per month; provided, however, that if the maximum rate then provided by law is less than one and one-half percent (1.5%) per month, then the rate shall be such maximum legal rate. County may, but is not obligated to, provide Airline with a written reminder where invoiced rentals, fees or charges have not been received within thirty (30) calendar days of transmittal of the invoice therefor.

Section 5.07. Security Deposit

In order to guarantee the timely payment of all rentals and fees provided for herein, Airline shall remit to County as of the effective date of this Agreement a security deposit in the amount of:

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(a) Airline's estimated Landing Fees for two (2) months (as determined on the basis of Airline's published flight schedule as of that date times the actual Landing Fee rate effective as of that date);

(b) Airline's estimated Exclusive Use Space, Preferential Use Space, and Joint Use Space rentals for two (2) months (as determined on the basis of Airline's actual leased space as of that date times the actual rental rates effective as of that date, using activity data for the most recent calendar month to allocate Joint Use Space costs). The security deposit may be adjusted by County as Airline's flight activity and space rental commitment increases or decreases.

Such deposit shall be in the form of an irrevocable letter of credit, or other security satisfactory to County, in a form approved by the Director. Document(s) evidencing this deposit must provide that the same shall remain in full force and effect for a period extending two (2) months following termination or cancellation of this Agreement as is herein provided.

If payments required to be made by Airline under the terms of this Agreement or payment of Passenger Facility Charge proceeds are not made, County shall have the right to forfeit, take, and use so much of such security deposit as may be necessary to make such payment in full and to exercise any other legal remedies to which it may be entitled, after notice.

Section 5.08 Payment of Utility Charges

Airline shall pay promptly for all utilities and utility services used by Airline at or in Airline's Exclusive Use Space in excess of those utility services specifically provided by County.

Section 5.09. No Other Fees and Charges

Except as expressly provided for in this Agreement, no further rentals, fees, or charges shall be charged against or collected by County from Airline, its passengers, shippers, and receivers of freight and express, or its suppliers of material, contractors, and furnishers of services for the premises, facilities, rights, licenses, and privileges granted to Airline under this Agreement. However, County expressly reserves the right to assess and collect reasonable fees for fuel sales, fueling services, inflight catering, food/beverage sales, vending, commercial ground transportation where charges are imposed on the customers thereof, and other business activities

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(other than Air Transportation). Also, County expressly reserves the right to assess and collect a Passenger Facility Charge in accordance with Section 5.05.

Anything in this Agreement to the contrary notwithstanding, this Section 5.09 shall not be interpreted or understood as contracting away any County governmental authority.

Section 5.10. Federal Aviation Aeronautical User Rate Policy

A. The County covenants to comply with the DOT Policy Regarding Rates and Charges in its capacity as Airport sponsor and operator in establishing rents and fees for the use of Airport by aeronautical users.

B. The County agrees to comply with Federal regulations concerning the diversion of Airport System Revenue for non Airport System purposes.

C. The parties agree that the rate making methodology established in this Agreement is consistent with the FAA Aeronautical Users Rate Policy. The parties agree that so long as the County complies with the terms and rate making conditions of this Agreement in adjusting these rents and fees, then County shall be deemed to be in compliance with the DOT Policy Regarding Rates and Charges.

D. Notwithstanding the above, County and Airline agree to attempt resolution of disputes through arbitration. In the event that either Airline or County elects to resolve a dispute through arbitration, each party shall appoint an arbitrator and the selected arbitrators shall select a third arbitrator. The three arbitrators shall conduct the arbitration in accordance with the rules and procedures of the American Arbitration Association. However, each party retains the right to subsequently pursue judicial review.

ARTICLE 6

ADJUSTMENT OF AIRLINE RENTALS AND FEES

Section 6.01. Effective Date of Adjustments

The Terminal Building rental rates, the Loading Bridge Use Fee, the Preferential Aircraft Parking Position Fee and the Landing Fee rate as described in Article 5 shall be adjusted annually as hereinafter set forth. Throughout this Article, whenever the adjustment calculation involves an estimate, the estimate of the Director shall be used. Such adjustments shall be effective on the first day of the Fiscal Year for which they apply.

Section 6.02. County Records

A. County shall establish an Airport System accounting system and shall maintain accounting records that document the following items for each Airport System Cost Center:

1. Annual revenues.
2. Maintenance and Operation Expenses, including administrative expenses.
3. Expenses of County incurred for the improvement, renovation, or enhancement of the Airport System.

B. County shall further maintain records evidencing the allocation of all capital funds to each Airport System Cost Center. Included in the allocation to each Airport System Cost Center shall be its proportionate share of the expenses of any Bond issuance, capitalized interest, and funding of special funds, determined with reference to the allocation of costs funded through securities or other capital fund sources. All State and federal funds received by County shall be deposited in the appropriate fund(s).

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Section 6.03. Reports

A. On or before March 1 of each Fiscal Year, Airline shall submit to County a written estimate of the Total Landed Weight for Airline for the succeeding Fiscal Year. Director may, but is not obligated to, provide Airline with a written reminder that a written estimate is due on March 1.

B. On or before May 1 of each Fiscal Year, Director shall submit to Airline the following reports in addition to report(s) described in Section 4.01.

1. County's Airport System Budget for the succeeding Fiscal Year which shall include:

a. Estimated Airport System Maintenance and Operation Expenses.

b. Annual Bond Debt Service, if any, and any estimated Bond Fund deposits.

2. A statement of estimated revenue from all sources other than Airline Terminal Building rentals, Loading Bridge Use Fees, Preferential Aircraft Parking Position Fees, and Landing Fees for the succeeding Fiscal Year.

3. A schedule of any Capital Improvement(s) to the Airport System proposed to be undertaken by County during the succeeding Fiscal Year, as provided in Section 4.01.

4. A calculation of the Terminal Building rental rates, Loading Bridge Use Fee, Preferential Aircraft Parking Position Fee and Landing Fee rate for the succeeding Fiscal Year, calculated in accordance with Sections 6.04, 6.05, 6.06 and 6.07 to be effective from and after the beginning of the Fiscal Year for which the Airport System Budget is adopted.

C. Each year County shall adopt an Airport System Budget for the Airport System and establish Terminal Building rental rates, a Loading Bridge Use Fee, a

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Preferential Parking Position Fee and a Landing Fee rate. County shall promptly furnish Airline with a copy of such Airport System Budget.

D. County retains the responsibility and expressly reserves the right to make all final decisions with respect to the Airport System Budget.

Section 6.04. Calculation of Terminal Building Rental Rates

A. Each year Director shall calculate the Terminal Building Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in County's Airport System Budget:

1. The total of direct and allocated indirect estimated Airport System Maintenance and Operation Expenses allocable to the Terminal Building.

2. An amount 1.25 times the pro rata portion of Airport System Annual Bond Debt Service, if any, allocable to the Terminal Building or such other amount as may be required by the Bond Resolution.

3. The pro rata portion of the required repayment of (a) any subordinate security of the Airport System, or (b) loans made to the Airport System by County allocable to the Terminal Building.

4. The pro rata portion of the estimated amount, if any, for required Airport System Bond Fund Deposits allocable to the Terminal Building.

5. The annual amortization of the total amount, or the pro rata amount allocable to the Terminal Building, of any expenditures made by County after January 1, 1982, and prior to July 1 of the adjustment year, for Capital Improvements in the Terminal Building, reviewed in accordance with Article 4 and financed by County from its own resources. Such annual amortization is to be calculated and based on the economic life for each Capital Improvement determined by the County in accordance with generally accepted accounting principals at an interest rate equal to the average "Bond Buyer Revenue Bond

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Index” for the preceding calendar year or, in the event such index is no longer published, at such other rate as determined by the County to be consistent with the provisions of this Agreement. In performing the calculations under this Section 6.04(A), no amortization charges shall be included for the portion of capital expenditures that have been funded with the proceeds of the County Airport System Revenue Bonds, grants-in-aid, Passenger Facility Charge proceeds or other securities, the debt service for which has been included in the calculation of rents, fees or charges.

6. The estimated amount of any assessment, judgment or charge (net of insurance proceeds) to become payable by County relating directly to the Airport System or its operation, allocable to the Terminal Building.

7. Any deficit or credit estimated for operation of the Terminal Building during the then-current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between actual versus estimated expenses.

B. An average rental rate shall then be calculated by dividing the Terminal Building Requirement computed pursuant to Section 6.04(A) by the total Usable Space. Under no circumstances shall this average rental rate be less than twenty dollars (\$20.00) per square foot per year.

The product of the average rental rate multiplied by total airline rentable space in the Terminal Building is then divided by airline rented space to produce the effective airline rental rate per square foot.

The effective airline rental rate shall be multiplied by the total amount of space leased by airlines in the Terminal Building to determine the airlines rental requirement.

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Section 6.05. Calculation of Preferential Aircraft Parking Position Fee

During each year, or portion thereof, after the Date of Beneficial Occupancy of the Terminal A, the Preferential Aircraft Parking Position Fee shall be adjusted annually in the following manner:

- A. Each year the Director shall calculate the Preferential Aircraft Parking Position Fee Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in County's Airport System Budget.
 1. The total of direct and allocated indirect estimated Airport System Maintenance and Operation Expenses allocable to the Apron Area portion of the Airfield Area.
 2. An amount 1.25 times the pro rata portion of Airport System Annual Bond Debt Service, if any, allocable to the Apron Area portion of the Airfield Area, or such other amount as may be required by the Bond Resolution.
 3. The pro rata portion of the required repayment of any subordinate security or loans made to the Airport System by County allocable to the Apron Area portion of the Airfield Area.
 4. The pro rata portion of the estimated amount, if any, for required Airport System Bond Fund Deposits allocable to the Apron Area portion of the Airfield Area.
 5. The annual amortization of the total amount, or the pro rata amount allocable to the Apron Area portion of the Airfield Area, of any expenditures made by County after January 1, 1982, and prior to July 1 of the adjustment year, for Capital Improvements, and financed by County from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the County in accordance with generally accepted accounting principles at an interest rate equal to the average "Bond Buyer

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Revenue Bond Index” for the preceding calendar year or, in the event such index is no longer published, at such other rate as determined by the County to be consistent with the provisions of this Agreement. In performing the calculations under this Section 6.05(A), no amortization charges shall be included for the portion of capital expenditures that have been funded with the proceeds of the County Airport System Revenue Bonds, Bonds, grants-in-aid, Passenger Facility Charge proceeds or other securities, the debt service for which has been included in the calculation of rents, fees or charges.

6. The estimated amount of any assessment, judgment, or charge (net of insurance proceeds) to become payable by County relating directly to the Airport System or its operation, allocable to the Apron Area portion of the Airfield Area.

7. Any deficit or credit estimated for operation of the Apron Area portion of the Airfield Area during the then current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between actual versus estimated expenses.

B. A Preferential Aircraft Parking Position Fee shall then be calculated by dividing the Apron Area Requirement computed pursuant to Section 6.05(A) by the total number of aircraft parking positions. This Preferential Aircraft Parking Position Fee shall be multiplied by the total number of aircraft parking positions assigned to airlines to determine the total annual airline Preferential Aircraft Parking Position Fee. During the term of this Agreement, the average Preferential Aircraft Parking Position Fee shall not be less than Fifteen Thousand Dollars (\$15,000) per Fiscal Year for each aircraft parking position.

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Section 6.06. Calculation of Loading Bridge Use Fee

A. Each year Director shall calculate the Loading Bridge Use Fee Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in County's Airport System Budget:

1. The total of direct and allocated indirect estimated Airport System Maintenance and Operation Expenses allocable to the Loading Bridges.
2. An amount 1.25 times the pro rata portion of Airport System Annual Bond Debt Service, if any, allocable to the Loading Bridges or such other amount as may be required by the Bond Resolution.
3. The pro rata portion of the required repayment of any subordinate security or loans made to the Airport System by County allocable to the Loading Bridges.
4. The pro rata portion of the estimated amount, if any, for required Airport System Bond Fund Deposits allocable to the Loading Bridges.
5. The annual amortization of the total amount, or the pro rata amount allocable to the Loading Bridges, of any expenditures made by County after January 1, 1982, and prior to July 1 of the adjustment year, for Capital Improvements, and financed by County from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the Director in accordance with generally accepted accounting principles at an interest rate equal to the average "Bond Buyer Revenue Bond Index" for the preceding calendar year or, in the event such index is no longer published, at such other rate as determined by the County to be consistent with the provisions of this Agreement. In performing the calculations under this Section 6.06(A), no amortization charges shall be included for the portion of capital expenditures that have been funded with the proceeds of the County Airport System Revenue Bonds, Bonds, grants-in-aid, Passenger Facility Charge proceeds

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or other securities, the debt service for which has been included in the calculation of rents, fees or charges.

6. The estimated amount of any assessment, judgment, or charge (net of directly related insurance proceeds) to become payable by County to the Airport system or its operation, allocable to the Loading Bridges.

7. Any deficit or credit estimated for operation of the Loading Bridges during the then-current Fiscal Year or any adjustment carried over from the preceding Fiscal Year to reflect any difference between actual versus estimated expenses.

B. A Loading Bridge Use Fee shall then be calculated by dividing the Loading Bridge Use Fee Requirement computed pursuant to Section 6.06(A) by the total number of Loading Bridges at the Terminal Building. This Loading Bridge Use Fee shall be not less than twelve thousand dollars (\$12,000) per Fiscal Year for each loading bridge provided by the County. This Loading Bridge Use Fee shall be multiplied by the total number of Loading Bridges assigned to airlines to determine the total annual airline Loading Bridge Use Fee.

Section 6.07. Calculation of Landing Fee Rate

A. Each year Director shall calculate the Airport System Landing Fee Requirement for the succeeding Fiscal Year by totaling the following amounts, as set forth in County's Airport System Budget.

1. The total of the direct and allocated indirect estimated Maintenance and Operation Expenses of the Airport System.

2. An amount 1.25 times Airport System Annual Bond Debt Service, or such other amount as may be required by the Bond Resolution.

3. The estimated annual amount of repayment of 1) any subordinate security of the Airport System, or 2) loans made to the Airport System by County.

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4. The estimated amount, if any, for required Airport System Bond Fund Deposits.

5. The annual amortization of the total amount of any expenditures made by County after January 1, 1982, and prior to July 1 of the adjustment year, for Airport System Capital Improvements, and financed by County from its own resources. Such annual amortization is to be calculated and based on the economic life for each capital item determined by the County in accordance with generally accepted accounting principles at an interest rate equal to the average "Bond Buyer Revenue Bond Index" for the preceding calendar year or, in the event such index is no longer published, at such other rate as determined by the County to be consistent with the provisions of this Agreement. In performing the calculations under this Section 6.07(A), (i) only interest will be charged for land acquisition, and (ii) no amortization charges shall be included on capital expenditures that have been financed with the proceeds of County Airport System Revenue Bonds, Bonds, grants-in-aid, Passenger Facility Charge proceeds or other securities, the debt service for which has been included in the calculation of rents, fees or charges.

6. The estimated amount of any assessment, judgment, or charge (net of directly related insurance proceeds) to become payable by County relating directly to the Airport System or its operation.

7. Any overpayment or underpayment estimated for operation of the Airport System during the then-current Fiscal Year, or any adjustment carried over from the preceding Fiscal Year, to reflect any difference between actual versus estimated revenues or expenses.

8. An amount equal to ten percent (10%) of all Airport System Revenue derived by County during the then current Fiscal Year from Airport System concessions, rentals, charges and fees from those airlines that are not

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Signatory Airlines and other Airport System tenants and users, excepting only airline Terminal Building rentals, Preferential Aircraft Parking Position Fees, Loading Bridge Use Fees and Landing Fees.

B. The Airport System Landing Fee Requirement for the succeeding Fiscal Year shall be calculated by crediting the following amounts, as set forth in the Airport System Budget for such year, to the Airport System Landing Fee Requirement calculated pursuant to Section 6.07(A).

1. The operating revenue derived by County from Airport System concessions, rentals and fees from non-Signatory Airlines and other tenants, service fees, profits on fuel and petroleum product sales.

2. Available balances in the Prepaid Revenue Account and the unrestricted interest earned by County on the Airport System Maintenance and Operation Fund, Maintenance and Operation Reserve Fund, Bond Reserve Fund, and Renewal and Replacement Fund.

3. The total of all Terminal Building rentals, Preferential Aircraft Parking Position Fees, and Loading Bridge Use Fees paid by the Airlines during the Fiscal Year.

C. The Landing Fee rate for the succeeding Fiscal Year shall be calculated by dividing the Airport System Landing Fee Requirement computed pursuant to Section 6.07(A) and (B) by the composite estimate of the Total Landed Weight of all Signatory Airlines Aircraft Arrivals at an airport in the Airport System for the succeeding Fiscal Year as projected by the Director using, in part, the estimates provided by the Airline pursuant to Section 6.03(A). This Landing Fee rate shall be not less than thirty cents (\$0.30) per one thousand (1,000) pounds of landed weight or Eight Dollars (8.00) per aircraft arrival, whichever is greater.

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Section 6.08. Extraordinary Adjustments of Landing Fee Rate

Notwithstanding any other provisions hereof, if, at any time during the term hereof, the revenues of the Airport System are not sufficient to pay, when due, all items included in the reports by County prepared pursuant to this Article 6, or to pay any other cost incidental or necessary to, or arising out of, the operation of the Airport System, including, without limitation, emergency repairs or expenses, the reasonably necessary cost of defending, settling, or satisfying any litigation or threatened litigation that relates to the Airport System, or any aspect thereof, or to compensate for the loss of revenue by reason of any labor dispute, Director may, following notice to and consultation with Airline, increase the Landing Fee to such amount as is sufficient to assure County that all such items, expenses and costs are paid in full, solely from revenues of the Airport System.

Section 6.09. Special Increases in Landing Fee Rate

If total Landing Fees of all Signatory Airlines for any quarter vary by more than ten percent (10%) from the projected total Landing Fees for such quarter, the Landing Fee rate shall, if deemed necessary by Director, be adjusted for the balance of such Fiscal Year by an amount equal to the difference between projected and actual total Landing Fees divided by the estimated Total Landed Weight of all Signatory Airlines during the balance of such Fiscal Year.

ARTICLE 7

BOND RESOLUTION AND FLOW OF FUNDS

Section 7.01. Subordination of Agreement to Bond Resolution

A. This Agreement and all rights of Airline hereunder are expressly subordinated and subject to the lien and provisions of any pledge, transfer, hypothecation, or assignment made at any time by County pursuant to the terms, covenants, and conditions of present and future Bond Resolutions.

B. In conflicts between this Agreement and any Bond Resolution, the Bond Resolution shall govern.

C. All those terms that are not specifically defined herein are to have the same definition as set forth in the Bond Resolution.

D. Any future Bond Resolution adopted by County shall conform to revenue financing requirements of the then current bond market and to generally accepted airport industry practices. County shall provide Airline a reasonable opportunity to review and comment upon any such Bond Resolution prior to its adoption.

Section 7.02. Flow of Funds

A. Subject to the terms and provisions of the Bond Resolution and other related instruments, it is mutually understood and agreed that, as long as any Bonds secured by the Bond Resolution are outstanding, all Airport System Revenue shall be deposited, maintained and paid as set forth in the Bond Resolution.

B. Revenues derived from the Airport System in each Fiscal Year shall be deposited in the Revenue Fund and used and applied in the following priority:

1. To the Maintenance and Operation Fund such amounts as are required by the County for the payment of budgeted Maintenance and Operation

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Expenses at the times such amounts are required. All money in the Maintenance and Operation Fund shall be used only to pay Maintenance and Operation Expenses.

2. To the Interest Fund at the times required by any Bond Resolution an amount of money equal to the aggregate amount required by each Bond Resolution. All money in the Interest Fund shall be used solely for the purpose of paying the interest on the Bonds.

3. To the Principal Fund at the times required by any Bond Resolution an amount of money equal to the aggregate amount required. All money in the Principal Fund shall be used for the purpose of paying the principal of, and any redemption premiums on, the Bonds.

4. To the Bond Reserve Fund such amount of money as shall be required by the Bond Resolution to restore the Bond Reserve Fund to an amount equal to Maximum Annual Debt Service. All money in the Bond Reserve Fund shall be used for the purpose of making up any deficiency in the Interest Fund or the Principal Fund to the extent that money on deposit in such funds is insufficient to pay interest or principal on Bonds.

5. To the Maintenance and Operation Reserve Fund such amount as is required to maintain in such fund a balance equal to one-fourth the amount in the County's annual Budget for Maintenance and Operating Expenses for such Fiscal year. All amounts in the Maintenance and Operation Reserve Fund shall be used to pay Maintenance and Operation Expenses to the extent that money on deposit in the Maintenance and Operation Fund is insufficient to pay budgeted Maintenance and Operation Expenses.

6. To the Subordinate Securities Fund the amounts required at the times required by any outstanding loans (including loans from the County) or obligations of the Airport System payable from Net Revenues. All money in the Subordinate

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Securities Fund shall be used for the purpose of paying required interest and principal due on such obligations or loans payable from Net Revenues.

7. To the Renewal and Replacement Fund the annual amount required to maintain in such fund a balance of at least one million dollars (\$1,000,000). The required balance in the Renewal and Replacement Fund may be increased at any time by the Director. All money in the Renewal and Replacement Fund shall be used for the purpose of payment of costs of unanticipated or emergency repairs and emergency replacements to the Airport System.

8. To the Capital Improvement Fund all remaining amounts in the Revenue Fund. All money in the Capital Improvement Fund shall be transferred to (a) the Prepaid Revenue Account and, (b) the Capital Improvement Account.

a. To the Prepaid Revenue Account an amount equal to Coverage on Annual Bond Debt Service funded through airline rents and fees together with other amounts (if any) that the County may deposit to the Prepaid Revenue Account. In the calculation of Landing Fees, the entire balance available in the Prepaid Revenue Account shall be credited to reduce the Airport System Landing Fee Requirement.

b. To the Capital Improvement Account all remaining amounts in the Capital Improvement Fund. Amounts in the Capital Improvement Account may be used to pay the costs of constructing or otherwise acquiring any enlargements, extensions of, or any other improvements to the Airport System.

Section 7.03. Tax Matters

Airline hereby makes an irrevocable election not to claim depreciation or an investment credit with respect to the property leased by County to Airline under this Agreement. Such election shall be binding upon all successors in interest to Airline under this Agreement. Airline and County represent and acknowledge that the term of this Agreement (as defined in

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Section 168(i)(3) of the Internal Revenue Code) is not more than eighty percent (80%) of the reasonably expected economic life of the property (as determined under Section 147(b) of the Internal Revenue Code) leased by County to Airline under this Agreement.

ARTICLE 8

MAINTENANCE, REPAIR, ALTERATIONS AND IMPROVEMENTS

Section 8.01. Airline's Responsibilities

It is understood and agreed that Airline and County shall have the following maintenance and repair obligations:

A. Airline agrees that by commencing occupancy of all Exclusive Use and Preferential Use Space assigned to it pursuant to this Agreement, Airline is representing that such space is in good and tenantable condition.

B. Airline shall at its sole expense and in a manner acceptable to Director:

1. Maintain its Exclusive Use Space in the condition prevailing in first class office space.
2. Maintain its Preferential Aircraft Parking Position(s) in a neat, clean and orderly condition, free from litter, debris, refuse, petroleum products or grease which result from the activities of its officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, or suppliers; and remove all oil and grease spillage that is attributable to Airline's aircraft or equipment from its Preferential Aircraft Parking Position(s).
3. Perform ordinary preventive maintenance and upkeep and nonstructural repair of all facilities located in Exclusive Use Space which is not a Public View Area.
4. Immediately repair any damage in any other space at the Airport caused by Airline, its officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, or suppliers.

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C. After reasonable notice, County may, at the sole discretion of the Director, provide any or all of the above delineated maintenance and repair obligations and recover its entire cost plus a reasonable administrative charge from Airline as Additional Rent.

Section 8.02. County's Responsibilities

A. County, during the term of this Agreement, shall retain FAA Airport Certification and keep the Airport in reasonably good repair.

B. County shall equip, furnish, and decorate the Public View Areas, including holdroom furnishings and cabinetry and shelves but excluding Airline's computer equipment, stanchions, back walls, or drawer inserts, of the Terminal Building.

C. County shall maintain the Public View Areas, including holdroom furnishings and cabinetry and shelves but excluding Airline's computer equipment, stanchions, back walls, or drawer inserts, of the Terminal Building.

A. County shall provide and supply to the Public View Areas of the Terminal Building heat, electricity, light, air conditioning, wastewater disposal, water, and janitorial services, including rubbish removal. Interruptions of services shall not constitute a breach of this Agreement by County, but County shall use its best efforts to restore such service after interruption.

B. Likewise, County shall provide and supply to Airline's Exclusive Use Space heat, electricity, light, air conditioning, wastewater disposal, water, and rubbish removal. Interruptions of services shall not constitute a breach of this Agreement by County, but County shall use its best efforts to restore such service after interruption.

F. The undertakings by County under this Section 8.02 do not relieve Airline of its duties to maintain any leased facilities and to use Joint Use facilities with due care.

Section 8.03. County's Right to Inspect and Make Repairs

County, by its officers, employees, agents, contractors, subcontractors and other representatives, shall have the right (at such times as may be reasonable under the

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circumstances and with as little interruption of Airline's operations as is reasonably practicable) to enter Airline's Exclusive Use Space, Preferential Use Space and Joint Use Space for the following purposes:

- A. To inspect such space to determine whether Airline has complied and is complying with the terms and conditions of this Agreement.
- B. To accomplish repairs or replacements by County required of County by Section 8.02, or in any case where Airline is obligated to make repairs or replacements and has failed to do so, after reasonable notice, make such repairs or replacements on Airline's behalf.
- C. In the exercise of County's police powers, no such entry by or on behalf of County upon any Exclusive Use Space, Preferential Use Space and Joint Use Space leased to Airline shall be deemed to constitute an interference with the possession and quiet enjoyment thereof by Airline.

Section 8.04. Alterations and Improvements

Airline shall make no alterations, additions, improvements to, or installations on, the space leased under this Agreement without the prior written approval of Director. Airline shall be financially responsible for damage to the Terminal Building caused by Airline, its officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, or suppliers in the event that Airline does make any Director approved alterations, additions, improvements to, or installations. If the County repairs such damage on Airline's behalf, then the County may recover its entire cost plus a reasonable administrative charge from Airline as Additional Rent.

ARTICLE 9

DAMAGE OR DESTRUCTION, INSURANCE,

INDEMNIFICATION AND RELEASE OF LIABILITY

Section 9.01. Damage or Destruction

A. If the Exclusive Use Space, Preferential Use Space or Joint Use Space, or any portions thereof, or buildings or structures of which such space may be a part, are damaged by fire or other casualty, County shall notify Airline whether the space shall be repaired. If the space is to be repaired, it shall be repaired with due diligence by County, and the rental allocable to the particular building, rooms, or other portion of the space rendered untenable, for the period from the occurrence of the damage to the completion of the repairs, shall be abated. County shall exert its best effort to provide Airline with temporary substitute space, if available, at such rent as is deemed necessary and reasonable by Director, until such time as the repairs are completed.

B. If County fails to notify Airline of its decision within sixty (60) calendar days after destruction, County shall be deemed to have elected to terminate this Agreement as to the space damaged or destroyed, and this Agreement shall automatically terminate as to such space as of the date of the damage.

Section 9.02. Insurance

A. Without limiting Airline's indemnification, throughout the term of this Agreement, Airline shall maintain in full force and effect the forms of insurance specified by Section 9.02 (B), (C), (D), (E), (F), (G), and (H).

All such insurance hereunder shall be maintained with insurance underwriters who have a Best's rating or equivalent of A:X or who have been approved by the Director.

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All liability insurance policies shall provide coverage which includes, or has the same substantive effect as, the following wording:

1. "The County of Sacramento and each of its officers, agents, elected representatives, volunteers, and employees, in their respective capacities as such, shall be additional insureds hereunder with respect to the products, premises and operations of the named insured to the extent of the named insured's obligations under its Operating Agreement and Terminal Building Lease with the County of Sacramento."

2. "It is agreed that this insurance policy shall apply as primary and any insurance and/or self-insurance as may be maintained by the County of Sacramento or its officers, agents, elected representatives, volunteers, and employees shall apply in excess of and shall not contribute with insurance provided by this policy."

3. "This insurance shall not be materially changed, altered, canceled or non-renewed until after thirty (30) days advance written notice has been given to the County of Sacramento except that only ten (10) day notice shall be required in the event of cancellation due to non-payment of premium."

At least ten (10) calendar days prior to the effective date of this Agreement, Airline shall furnish County with evidence of all insurance policies negotiated. Prior to the expiration of any then-current policy of insurance, Airline shall deliver to County evidence showing that such insurance coverage has been renewed. At least five (5) calendar days prior to the date of cancellation or reduction of coverage, as received in the written notice from the insurer, Airline shall deliver to Director evidence showing reinstatement or other provision for the required insurance.

All such evidence shall be in the form of certificates of insurance satisfactory to Director, accompanied by a certified true copy of an endorsement

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to each policy containing the language required by Section 9.02 (A) (1), (2), (3) and, if applicable, cross-liability coverage.

B. Aircraft liability insurance and comprehensive form general liability insurance, covering bodily injury, personal injury, property damage, cross-liability, products/completed operations liability, premise liability, and contractual liability specifying this Agreement, with a liability limit of not less than three hundred million dollars (\$300,000,000) combined single limit per occurrence, on occurrence form policy. Said limit shall be reduced to \$150,000,000 where Airline's maximum seating capacity on any airplane operated by Airline is thirty (30) or less. With respect to coverage for products/completed operations and personal injury, except with respect to passengers, a sublimit of not less than twenty five million dollars (\$25,000,000) per occurrence, and in the annual aggregate, shall be permitted with the approval of the Director. Said aircraft liability shall be applicable to owned, non-owned, and hired aircraft.

C. Automobile liability insurance with a liability limit of not less than five million dollars (\$5,000,000) for all owned, non-owned, and hired vehicles operated by or on behalf of Airline on the lease space, or elsewhere at the Airport, including any additional or replacement vehicles.

D. Liquor liability insurance for Airline serving alcoholic beverages in an amount not less than ten million dollars (\$10,000,000) per occurrence.

E. Hangarkeepers liability insurance or other appropriate insurance in an amount adequate to cover any aircraft or non-owned property in the care, custody and control of Airline at the Airport, but in any event in an amount not less than five million dollars (\$5,000,000) per occurrence.

F. Employer's liability insurance in an amount not less than one million dollars (\$1,000,000) per occurrence.

G. Airline shall likewise maintain workers' compensation insurance or evidence of self-insurance, in accordance with the laws of the State of California,

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covering all its employees who may from time to time be at the Airport in such capacity. Airline shall require each of its agents, licensees, subcontractors, and suppliers of the leased premises to maintain such workers' compensation insurance covering their employees coming on Airport premises in connection with Airline's operations hereunder. The workers' compensation policy(s) required hereunder shall be endorsed to state that the workers' compensation carrier waives its right of subrogation against the County, its officers, agents, elected representatives, volunteers, and employees. Upon request by Director, Airline shall furnish Director with evidence of such workers' compensation insurance in a form acceptable to County.

H. Environmental/Pollution Liability insurance with a limit of not less than five million dollars (\$5,000,000) including coverage for Third Party Pollution Liability, Remediation coverage, and offsite cleanup. Satisfaction of the requirement for Environmental/Pollution Liability may be made by securing a policy of insurance for this coverage or providing to the County a letter on company letterhead stating that Airline is self-insured for this coverage.

I. The parties understand and agree that the minimum limits of the insurance herein required may become inadequate during the term of this Agreement, and Airline and County agree that each will increase such minimum limits by reasonable amounts on request of Director with concurrence of County Risk Manager.

J. If at any time Airline fails to obtain or maintain in force the insurance required herein, such failure shall constitute an incurable default permitting County, at its option, to immediately terminate this Agreement and take possession upon giving the notice specified in Section 13.03, but without giving any prior notice of default pursuant to Section 13.01, and County shall have all available remedies specified in Section 13.02 or permitted by law. Under this provisions, County does not have to wait until the expiration of the fifteen (15) day notice period as stated in Section 13.03, but upon

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providing written notification, can immediately take possession and terminate the agreement.

K. If any claim for damages is filed with Airline or if any lawsuit is instituted against Airline, Airline shall give prompt and timely notice thereof to Director, provided that claims and lawsuits subject to such notice are only those that arise out of or are in any way connected with Airline's or its officers', representatives', agents', employees', passengers', guests', patrons', contractors', subcontractors', licensees', subtenants', invitees', or suppliers' use of the leased premises or Airline's operations or activities in regard to the Airport or Airport System and that in any way, directly or indirectly, contingently or otherwise, affect or might reasonably affect County. Notice shall be deemed prompt and timely if given within thirty (30) calendar days following the date of receipt of a claim or ten (10) calendar days following the date of service of process of a lawsuit. Accident or property damage claims in an amount less than one thousand dollars (\$1,000) shall be excluded from the requirements of this Section 9.02(J).

L. If any claim for damages is filed with County or if any lawsuit is instituted against County, County shall give prompt and timely notice thereof to Airline, provided that claims and lawsuits subject to such notice are only those that arise out of or are in any way connected with the operation of the Airport or Airport System by County and that in any way, directly or indirectly, contingently or otherwise, affect or might reasonably affect Airline. Notice shall be deemed prompt and timely if given within thirty (30) calendar days following the date of receipt of a claim or ten (10) calendar days following the date of service of process of a lawsuit. Accident or property damage claims in an amount less than one thousand dollars (\$1,000) shall be excluded from the requirements of this Section 9.02(K).

M. The time limitations set forth in Section 9.02(J) and 9.02(K) are directory. If the notice required to be given by these Sections 9.02(J) and 9.02(K) is not given within the time limitations set forth therein, then the party giving the notice shall not be

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precluded from establishing that the notice actually given was timely under the circumstances of the particular claim or lawsuit, unless by the failure to give such notice within the applicable time period, the other party has been prejudiced in its ability to consider such claim or to respond to, or properly defend, such lawsuit. If the other party is so prejudiced by a late notice, then the late notice shall not be deemed to be prompt and timely.

Section 9.03. Indemnification

Airline shall indemnify, defend and hold harmless County and its elected representatives, officers, volunteers, agents and employees from and against all liabilities, losses, costs, suits, claims, judgments, expenses, fines or demands of any kind (including, but not limited to, costs of investigation, attorney fees, court costs and expert fees) resulting from any injury, damage or death to any person or property, of any nature whatsoever, arising out of or alleged to arise out of the use, occupancy or operations of Airline, or any of its officers, volunteers, representatives, agents, employees, contractors, subcontractors, licensees, subtenants, invitees, or suppliers, at the Airport or within the Airport System. Airline shall not be liable for any injuries, death or damage to the extent that such injury, death or damage is caused by the negligence or willful misconduct of County, its elected representatives, officers, volunteers, agents or employees. It is the intent of the parties that, where the negligence or willful misconduct of the County, its elected representatives, officers, agents or employees, is determined to have been contributory, the principles of comparative negligence as applied in the State of California shall be followed and each party shall bear the proportionate cost of any loss, damage or liability attributable to its own negligence or misconduct. This Section 9.03 shall survive the termination or expiration of this Agreement.

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Section 9.04. Release of Liability Regarding Certain Damages

A. County shall not be liable for, and is hereby released from, all liability to Airline, Airline's insurance carrier, or anyone claiming under or through Airline for bodily injury or any loss or damage to real or personal property occasioned by flood, fire, earthquake, lightning, windstorm, hail, explosion, riot, strike, civil commotion, military confrontation, smoke, vandalism, malicious mischief, acts of civil disobedience, acts of civil authority or any other cause beyond County's control.

B. County shall not be liable for, and is hereby released from all liability to Airline, Airline's insurance carrier, or anyone claiming under or through Airline for any loss or damage whatsoever to the property or effects of Airline resulting from the discharge of water or other substances from pipes, sprinklers, or conduits, containers or appurtenances thereof or fixtures thereto, or for any damage resulting from the discharge or failure of electric current, regardless of cause or origin, except for such damage as may be caused by reason of the sole active negligence of County, its employees or agents.

C. The provisions of this Section 9.04 shall not be construed as a limitation of County's rights pursuant to Section 9.03, but are additional to the rights and exclusions from liability provided in Section 9.03.

ARTICLE 10

ASSIGNMENT, SUBLEASE, REASSIGNMENT, MERGER, BANKRUPTCY

Section 10.01 Assignment and Sublease

Airline shall not at any time sublet, assign, transfer, convey, mortgage, pledge, or encumber its interest under this Agreement, or any part of the leased space, to any party other than a wholly owned subsidiary of Airline, or corporation with which Airline may merge or consolidate, without prior written approval of Director. Any such attempt to sublet, assign, or transfer in violation of the provisions hereof shall be null and void and considered a default hereunder. No sublease, assignment, transfer, conveyance, mortgage, pledge or encumbrance by Airline shall relieve Airline of its primary responsibility for all payments and performance of all other obligations required of Airline by this Agreement. Consent by County to any type of sublease, assignment, transfer, conveyance, mortgage, pledge or encumbrance shall not in any way be construed to relieve Airline from obtaining further consent for any subsequent sublease, assignment, transfer, conveyance, mortgage, pledge or encumbrance of any nature whatsoever.

Section 10.02. Bankruptcy

Section 10.01 shall not apply to any valid assumption or assignment of this Agreement, the leased space, or any part thereof, by a trustee, or Airline as a debtor in possession under Section 365 of the Bankruptcy Code of 1978, as amended, provided that adequate assurance of future performance as provided by Section 365 of the Bankruptcy Code of 1978, as amended, for the purposes of the assumption or assignment of this Agreement, shall include, but shall not be limited to:

- A. Adequate assurance of the reliability of the proposed source for the rentals due under this Agreement on the assumption or assignment of this Agreement.
- B. Adequate assurance that all other consideration due under this Agreement shall be forthcoming after the assumption or assignment of this Agreement.

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C. The procurement of a bond from a financially reputable surety covering any costs or damages incurred by County in the event that County, within one (1) year following the assumption or assignment of this Agreement, exercises any right to reassign the leased space covered by this Agreement as permitted by Sections 3.04, 3.05 and 3.06.

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ARTICLE 11

**RULES AND REGULATIONS, COMPLIANCE WITH LAW,
NONDISCRIMINATION**

Section 11.01. Rules and Regulations

A. Airline shall observe and obey all Rules and Regulations. County agrees that its Rules and Regulations shall not be inconsistent with the express terms of this Agreement or any applicable regulation or directive of the FAA or of any other federal or State agency. Copies of the Rules and Regulations, as promulgated, shall be forwarded to Airline's local manager.

B. Airline shall take all reasonably necessary steps to ensure that its officers, agents, employees, representatives, contractors, subcontractors, licensees or invitees fully comply with all Rules and Regulations.

C. County shall prescribe penalties and injunctive remedies for violations of the Rules and Regulations, and these penalties and injunctive remedies may be applied by Director to Airline for violations by any of Airline's officers, representatives, agents, employees, passengers, guests, patrons, contractors, subcontractors, licensees, subtenants, invitees, or suppliers.

Section 11.02. Compliance with Law

Airline shall not, in connection with any of its activities or operations, use any of the Airport's facilities or permit the same to be used by any of its officers, representatives, agents, employees, contractors, subcontractors, licensees, subtenants, invitees, or suppliers for any illegal purpose and shall:

A. Comply with all applicable ordinances, laws, and rules and regulations of any city, county, state, federal government or agency that has jurisdiction to pass laws or

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ordinances or to make and enforce rules and regulations governing conduct on and operations at the Airport and the use of its facilities.

B. Strictly comply with future FAA regulations concerning Airport security, including those set forth in FAR Parts 107 and 108, and any directives issued by the Director relating to Airport security.

C. Make, at its own expense, all nonstructural improvements, repairs and alterations to its Exclusive Use Space, Preferential Use Space, equipment, and personal property that are required to comply with or conform to any of such laws, ordinances, and rules and regulations referred to in Section 11.02(A) or (B).

D. Reimburse County for a pro rata portion of all nonstructural improvements, repairs and alterations that are required to comply with or conform to any of such laws, ordinances and rules and regulations referred to in Section 11.02(A) or (B).

E. Be and remain an independent contractor with respect to all installations, construction and services performed hereunder by or at the request of County.

Section 11.03. Amendment Required by FAA

This Agreement may be amended without further consideration for the purpose of complying with FAA requirements.

Section 11.04. Assurances Required By FAA

Those certain seventeen (17) provisions set forth within Section "B," "Assurances," of Exhibit "E," "Assurances Required by the Federal Aviation Administration," attached hereto and made a part hereof, are those specific provisions required by the FAA to be appropriately included within all agreements (including, without limitation, leases, licenses, permits, and contracts) between County and any and all persons and/or entities who use or perform work or conduct activities on County-owned Airport premises for aeronautical or non-aeronautical purposes. Airline, by its signature(s) hereunto affixed, acknowledges that it has reviewed the

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aforesaid Exhibit, in its entirety, and fully understands the meaning, purpose, and intent thereof. Airline expressly agrees that, throughout the life hereof, it shall fully and faithfully comply with, abide by and/or adhere to, as applicable and appropriate, each and every one of the numbered provisions contained with Section "B," "Assurances," of said Exhibit (as said numbered provisions are reflected therein or as same may be amended, from time to time, during the life hereof, by County, as and when the FAA's requirements thereon imposed may so dictate), which, pursuant to the guidelines established within paragraphs 2 through 4 of Section "A" of said Exhibit, shall either be applicable to Airline on the start date of the term hereof or which, as a result of changing facts and/or circumstances, shall subsequently become applicable to Airline hereunder, during the life hereof.

ARTICLE 12

COVENANT NOT TO GRANT MORE FAVORABLE TERMS

Section 12.01. Covenant Not to Grant More Favorable Terms

A. County covenants and agrees not to enter into any lease, contract or any other agreement with any other Air Transportation entity containing substantially more favorable terms than this Agreement, or to grant to any tenant engaged in Air Transportation, rights or privileges with respect to the Airport that are not accorded Airline hereunder, unless the same rights, terms and privileges are concurrently made available to Airline. This covenant shall not extend to any airline operating only aircraft of less than fifty thousand (50,000) pounds Maximum Gross Landing Weight.

B. If any other Air Transportation entity shall undertake any operations at the Airport for the carriage of passengers, baggage, cargo or mail by air, County shall require, to the extent legally permissible, such other aircraft operator to execute and deliver an agreement, permit, license, lease or contract with County providing for:

1. The payment of Landing Fees at rates and on such other terms and conditions as are not less burdensome on the other Air Transportation entity than those rates or terms and conditions then in effect for Airline.
2. The payment of rentals for aircraft parking and the use of County equipment and for any space leased from County in the Terminal Building at rates not less than those rental rates then payable by Airline for similar facilities.
3. The payment for use by such other Air Transportation entity of all Joint Use Space and operating costs of all baggage handling or other passenger service systems, calculated and billed to such entity as in the case of Airline.

ARTICLE 13

DEFAULT AND TERMINATION

Section 13.01. Airlines Default and Default Notices

A. The following shall be "events of default" under this Agreement constituting a material breach of the Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this Agreement, any one of the following events:

1. If the rentals and fees, Passenger Facility Charge proceeds or reports required pursuant to DOT Part 158, or other money payments that Airline herein agrees to pay, or any part hereof, shall be unpaid on the date the same becomes due.

2. If Airline files a voluntary petition in bankruptcy, or makes a general assignment for the benefit of creditors, or if Airline is adjudicated as bankrupt.

3. The taking of jurisdiction of Airline or its assets by a court of competent jurisdiction pursuant to proceedings brought under the provisions of any federal reorganization act.

4. The appointment of a receiver or a trustee of Airline's assets by a court of competent jurisdiction or a voluntary agreement with Airline's creditors, and the same is not removed within ninety (90) calendar days from the date of such appointment.

5. If a custodian is appointed for or takes possession of Airline's property, other than a trustee receiver or agent who is appointed or authorized to take charge of less than substantially all of Airline's property for the purpose of enforcing a lien against such property. For this purpose, "custodian" means one of the following:

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a. A receiver or trustee of any of Airline's property, appointed in any case or proceeding other than a case or proceeding under the federal Bankruptcy Code, as amended.

b. An assignee under a general assignment for the benefit of Airline's creditors.

c. A trustee, receiver or agent under applicable law, or under a contract, who is appointed or authorized to take charge of Airline's property for the purpose of enforcing a lien against such property, or for the purpose of the general administration of such property for the benefit of Airline's creditors.

6. If any act occurs that permanently deprives Airline of the rights, power and privileges necessary for the proper conduct and operation of its Air Transportation business.

7. If Airline abandons and fails to use its Exclusive Use Space or Preferential Use Space for a period of thirty (30) calendar days at any one time, except when such abandonment and cessation are due to fire, earthquake, strike, governmental action, or acts, omissions or default of County, or other cause beyond Airline's control.

8. If Airline uses or permits the use of its Exclusive Use Space or Preferential Use Space at any time for any purpose for which the use thereof at that time is not authorized by this Agreement, or by a subsequent written agreement between the parties, or permits the use thereof in violation of any law, rule or regulation to which Airline has agreed in this Agreement to perform.

9. If Airline discontinues Air Transportation to the Airport as a consequence of Airline's filing a bankruptcy petition, voluntary or involuntary, seeking a reorganization or readjustment of its indebtedness under the federal bankruptcy laws or under any other statute of the United States or any state

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thereof or being adjudged bankrupt, Airline shall be deemed to have forfeited its leasehold space.

10. If Airline fails to operate at least five (5) weekly scheduled passenger service departures from the Airport, for a period of ninety (90) calendar days or more (except by reason of strikes or causes beyond the control of Airline).

11. If Airline is in violation of any material provision of this Agreement.

B. Prior to pursuing any remedy for a curable default by Airline, County shall, before pursuing any remedy, give notice of such default to Airline and an opportunity to cure the default. Each notice of default shall specify the alleged event of default and the intended remedy.

C. If the alleged default is nonpayment of rent, fees or other sums to be paid by Airline to County; Airline shall have thirty (30) calendar days after notice is given to cure the default. For the cure of any other default, Airline shall promptly and diligently, after notice, commence curing the default and shall have thirty (30) calendar days after notice is given to complete the cure or, in the case of a failure or omission that cannot be cured by the payment of money and cannot be cured within thirty (30) calendar days, such additional time as the parties may agree thereto. If the default is not curable, County may immediately terminate this Agreement, without giving any prior notice of default and/or pursue any remedy specified in Section 13.02 or as provided by law.

Section 13.02. County's Remedies

If any default by Airline shall continue uncured following notice of default for the period applicable to the default under the provisions of this Agreement, or if the default is not curable, County shall have the following remedies:

A. County may, at its election, terminate this Agreement by giving Airline notice of termination. No acts by County other than giving written notice to Airline shall

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terminate this Agreement. Acts of maintenance and efforts to relet, assign, reassign, allocate, reallocate, or relocate the premises shall not constitute a termination of Airline's right to possession. On the giving of the notice, all Airline's rights in the premises and in all improvements shall terminate. Termination under this Section 13.02(A) shall not relieve Airline from the payment of any sum then due County or from any claim for damages previously accrued or then accruing against Airline.

B. County may, at its election, reenter the premises by giving Airline notice of such election and, without terminating this Agreement, County may at any time relet the premises and improvements or any parts thereof for the account and in the name of Airline or otherwise. County may execute any agreements made under this provision either in County's name or in Airline's name and shall be entitled to all rents from the use, operation or occupancy of the premises or improvements or both. Airline shall nevertheless pay to County, on the due date specified in this Agreement, the equivalent of all sums required of Airline under this Agreement, plus County's expenses, less the avails of any reletting or attornment.

In addition to all other rights and remedies it may have, County shall have all of the rights and remedies of a landlord under Section 1951.4 of the California Civil Code. County may do all things reasonably necessary for such reletting, including repairing, remodeling and renovating of the premises or improvements, to return them to their original condition and Airline shall reimburse County on demand for all costs incurred by County in connection therewith. If County relets the premises, it shall apply any sums received upon such reletting in the following order of priority:

1. To the payment of any indebtedness from Airline to County other than rent due hereunder from Airline;
2. To the payment of all costs incurred by County in restoring the premises to good order and repair, or in remodeling, renovating or otherwise preparing the premises for reletting;

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3. To the payment of all costs incurred by County in reletting the premises;

4. To the payment of rent, fees or money payments due and unpaid hereunder; and

5. The balance, if any, to the payment of future rents, fees or money payments as the same may become due hereunder.

No such reentry of the premises, or any improvements thereon by County, shall be construed as an election on the part of County to terminate this Agreement unless a written notice of such intention to terminate is given to Airline.

Notwithstanding any election by County not to terminate this Agreement, County may at any time thereafter elect to terminate this Agreement for any previous breach or default hereunder by Airline which remains uncured or for any subsequent breach or default.

C. County shall be entitled at its election to damages and shall have all the remedies available by law.

Section 13.03. Possession by County

When giving notice of termination or notice of election to reenter the premises, County may take possession upon fifteen (15) calendar days notice or such later date as may be specified in such notice.

Section 13.04. No Remedy Exclusive

No remedy conferred herein upon or reserved to County is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from

Sacramento International Airport
Scheduled Airline Operating Agreement and Terminal Building Lease

time to time and as often as may be deemed expedient. In order to entitle County to exercise any remedy reserved to it in this Agreement, it shall not be necessary to give any notice, other than such notice as may be required in this Agreement or by law.

Section 13.05. Waiver and Voluntary Acts

No waiver of any breach or default shall constitute a waiver of any other breach or default, whether of the same or any other term, agreement or condition. No waiver, benefit, privilege or service voluntarily given or performed by either party shall give the other any contractual right by custom, estoppel or otherwise. The subsequent acceptance of rent, fees or other money payments pursuant to this Agreement shall not constitute a waiver of any preceding breach or default by Airline other than default in the payment of the particular rental payment so accepted regardless of County's knowledge of the preceding breach at the time of accepting this payment. Acceptance of rent, fees or other money payments after termination shall not constitute a reinstatement, extension or renewal of the Agreement or revocation of any notice or other act by County.

Section 13.06. Additional Remedy in Bankruptcy

The parties hereto expressly agree, notwithstanding anything in this Agreement to the contrary, that in the event that Airline becomes a debtor under any chapter of the Bankruptcy Code and this Agreement has not been terminated prior to the commencement of Airline's bankruptcy proceedings, all rents, fees and charges payable by Airline to, or on behalf of, County hereunder, whether or not expressly denominated as rent, shall constitute rent solely for the purposes of calculating County's damage pursuant to 11 U.S.C. Section 502(b)(6) or any similar provision of the Bankruptcy Code, in the event that this Agreement is rejected in such bankruptcy proceeding.

Section 13.07. Events Permitting Termination of Agreement by Airline

If County is in default of any material portion of this Agreement, Airline may terminate this Agreement and terminate all of its future obligations hereunder at any time that Airline is

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not in default in its payments or other obligations to County hereunder, and such default continues for a period of sixty (60) calendar days after receipt of written notice of such default from Airline.

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ARTICLE 14

NOTICES

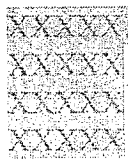
Section 14.01. Delivery of Notices

A. Notices required herein shall be in writing and served personally, sent by certified mail, return receipt requested or postage prepaid or facsimile. Any notice mailed pursuant to this Section 14.01(A) shall be presumed to have been received by the addressee seven (7) business days after deposit of same in the mail. Either party shall have the right, by giving written notice to the other or to change the address or facsimile number at which its notices are to be received. Until any such change is made, notices shall be addressed and delivered as follows:

1. When to County:

Director of Airports
Sacramento County Airport System
6900 Airport Boulevard
Sacramento, CA 95837-1109

2. When to Airline:



In addition, as a courtesy notices may also be sent by facsimile at the following facsimile numbers:

1. When to County: (916) 874-0636

2. When to Airline: (XXX) ###-####

B. If notice is given in any other manner or at any other place, it will also be given at the place and in the manner specified in Section 14.01(A).

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ARTICLE 15

MISCELLANEOUS

Section 15.01. Successors and Assigns Bound

This Agreement shall be binding on and inure to the benefit of the successors and assigns of the parties hereto.

Section 15.02. Governing Law

This Agreement and all disputes arising hereunder shall be governed by the laws of the State of California. Venue for any litigation regarding any matter related to this Agreement shall be in a State Superior Court or federal District Court located in Sacramento California. In the event of a dispute between the parties hereto as to the language of this Agreement or the construction or meaning of any term hereof, this Agreement shall be deemed to have been drafted by the parties in equal parts so that no presumptions or inferences concerning its terms or interpretation may be construed against any party to the Agreement.

Section 15.03. Noninterference with Operation of the Airport System Airports

Airline, by accepting this Agreement, expressly agrees for itself, its successors and assigns that it will not make use of the leased premises in any manner that might interfere with the landing and taking off of aircraft at any of the airports in the Airport System or otherwise constitute a hazard. In the event the aforesaid covenant is breached, upon reasonable notice to airline and opportunity to cure, County reserves the right to enter into the premises hereby leased and cause the abatement of such interference at the expense of Airline.

County shall maintain and keep in reasonably good repair the Airport landing areas, including taxiways, and shall have the right to direct and control all activities of Airline in this regard.

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Section 15.04. Quiet Enjoyment

Airline shall, upon payment of the rentals and fees as herein required, and subject to performance and compliance by Airline of the covenants, conditions and agreements on the part of Airline to be performed and complied with hereunder, peaceably have and enjoy the rights, uses and privileges of the Airport, its appurtenances and facilities as granted hereby and by the Rules and Regulations.

Section 15.05. Taxes

A. Under this Agreement, a possessory interest subject to property taxation may be created. Notice is hereby given pursuant to California Revenue and Taxation Code, Section 107.6, and Government Code Section 53340.1, that Airline's interest may be subject to property taxation and special taxation pursuant to Chapter 2.5, Division 2 of the Government Code (Mello Roos Community Facilities Act of 1982) and that Airline may be subject to the payment of property taxes and special taxation levied on such interest. Airline shall pay, but such payment shall not be considered part of Airport System Revenue, all taxes (including any possessory interest tax), assessments and charges of whatever character which at any time during the term of this Agreement may be levied against Airline or become a lien by virtue of any levy, assessment or charge against Airline by federal, State and any other public agency, including the County, with respect to: (1) any of the space leased under this Agreement or such facilities of the Airport as are made available for use by Airline hereunder; (2) any personal property belonging to Airline situated on the space leased under this Agreement; or (3) Airline's leasehold improvements or operations hereunder. Payment of any such taxes, assessments and charges, shall be made by Airline directly to the taxing or assessing authority charged with collection thereof.

B. Airline may, at its own expense, contest the amount or validity of any tax or assessment, or the inclusion of the space leased under this Agreement as taxable or assessable property, directly against the taxing or assessing authority. Airline shall indemnify and hold

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County harmless from all taxes, penalties, costs, expenses and attorney fees incurred by County resulting directly or indirectly from all such tax contests.

C. On any termination of this Agreement, all lawful taxes then levied and all liens upon any such property or taxable interest therein shall be paid in full by Airline forthwith, or as soon as a statement thereof has been issued by the tax collector if termination occurs during the interval between attachment of the lien and issuance of a statement.

Section 15.06. Liens

Airline shall cause to be removed promptly any and all liens of any nature arising out of or because of any construction performed by Airline or any of its contractors or subcontractors upon Exclusive Use Space, Preferential Use Space, or Joint Use Space or arising out of or because of the performance of any work or labor by or for it to them at said premises, reserving the right to contest in court the validity of any such liens. Airline shall have the right to post an appropriate bond to cover its obligations pursuant to this Section 15.06.

In the event any person or corporation shall attempt to assert a mechanic's lien against the leased premises for improvements made by Airline, Airline shall indemnify and hold County harmless from such claim, including the cost of defense.

Section 15.07. Subordination to Agreements with the U. S. Government

This Agreement is subject and subordinate to the provisions of any agreements heretofore or hereafter made between County and the United States, relative to the development, operation or maintenance of the Airport System, the execution of which has been required as a condition precedent to the transfer of federal rights or property to County for Airport System purposes, or to the expenditure of federal funds for the improvement or development of the Airport System, including the expenditure of federal funds for the development of the Airport System in accordance with the provisions of the Federal Aviation Act of 1958, the Federal Aid to Airports Act, the Airport and Airway Development Act of 1970, and the Airport and Airway

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Improvement Act of 1982, as such acts may have been amended from time to time. County covenants that, to the best of its knowledge, it has no existing agreements with the United States that contain provisions expressly in conflict with the express provisions of this Agreement.

In the event that the FAA requires, as a condition precedent to the granting of funds for the improvement of the Airport System, modification or changes to this Agreement, Airline agrees to consent to such amendments, modifications, revisions, supplements or deletions of any of the terms, conditions or requirements of this Agreement as may be reasonably required to enable County to obtain such grant of funds, provided that in no event shall such changes impair the rights of Airline hereunder.

Section 15.08. Incorporation of Exhibits

All exhibits referred to in this Agreement are intended to be and hereby are specifically made a part of this Agreement.

Section 15.09. Incorporation of Required Provisions

The parties incorporate herein by this reference all provisions lawfully required to be contained herein by any governmental body or agency.

Section 15.10. Price Level Adjustments

The fixed dollar amounts contained in this Agreement (with the exception of Section 7.02(B)(8)) shall be adjusted each year in proportion to the changes in the Implicit Price Deflator index published by the U. S. Department of Labor, Bureau of Labor Statistics, using as a base the latest published index available as of January 1, 1988. If the Implicit Price Deflator index is no longer published, the Director shall designate a successor index.

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Section 15.11. Entire Agreement

This Agreement, together with all exhibits attached hereto, constitutes the entire agreement between the parties hereto, and all other representations or statements heretofore made, verbal or written, are merged herein, and this Agreement may be amended only in writing, and executed by duly authorized representatives of the parties hereto.

Section 15.12. Force Majeure

Neither County nor Airline shall be deemed in violation of this Agreement if it is prevented from performing any of the obligations, hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of energy or materials, acts of God, acts of a public enemy, acts of superior governmental authority, weather conditions, riots, rebellion, sabotage or any other circumstances for which it is not responsible or which are not within its control, provided these provisions shall not excuse Airline from paying the rentals and fees specified in Article 5.

Section 15.13. Headings

The headings of the several articles and sections of this Agreement are inserted only as a matter of convenience and for reference and do not define or limit the scope or intent of any provisions of this Agreement and shall not be construed to affect in any manner the terms and provisions hereof or the interpretation or construction thereof.

Section 15.14. Nonexclusive Rights

It is understood and agreed that nothing herein contained shall be construed to grant to Airline any exclusive right or privilege within the meaning of Section 308 of the Federal Aviation Act for the conduct of any activity on the Airport, except that, subject to the terms and provisions hereof, Airline shall have the right to exclusive possession of the Exclusive Use Space leased to Airline under the provisions of this Agreement.

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Section 15.15. Inspection of Books and Records

Each party hereto, at its expense and on reasonable notice, shall have the right from time to time to inspect the books, records and other data of the other party relating to the provisions and requirements hereof, provided such inspection is made during regular business hours.

Section 15.16. Generally Accepted Accounting Principles

Whenever any report or disclosure referred to in this Agreement consists, either in whole or in part, of financial information, such report or disclosure shall be prepared in accordance with generally accepted accounting principles, except where provided to the contrary in this Agreement.

Section 15.17. General Interpretation

Insofar as this Agreement grants, permits or contemplates the use of space or facilities or the doing or any other act or thing at the Airport by Airline, such use or the doing of such act or thing is to be in connection with the operation of the civil air transportation system by Airline for the carriage by aircraft of persons, property, cargo, baggage, and mail on scheduled or nonscheduled flights, whether as a common carrier, a contract carrier, a private carrier or otherwise. Each of the parties, however, has entered into this Agreement solely for its own benefit; and (without limiting the right of either party to maintain suits, actions or other proceedings because of breaches of this Agreement) the Agreement does not grant to any third person (excepting a successor party to County or Airline) a right to claim damages or bring any suit, action or other proceeding against either County or Airline because of any breach hereof.

Section 15.18. Holding Over

If Airline remains in possession of the leased premises after the expiration of this Agreement without any written renewal thereof, such holding over shall not be deemed as a renewal or extension of this Agreement, but shall create only a tenancy from month to month that

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may be terminated at any time by County. Such holding over shall otherwise be upon the same terms and conditions as set forth in this Agreement.

Section 15.19. Consent Not to be Unreasonably Withheld

Whenever consent or approval is required herein by either County or Airline, such consent or approval is not to be unreasonably withheld.

Section 15.20. Authority of Director

All rights and obligations of County under this Agreement may be exercised by the Director or his designee, unless specifically provided otherwise or required by law.

Section 15.21. Invalid Provision

If any covenant, condition or provision herein contained is held to be invalid by any court of competent jurisdiction, the invalidity of any such covenant, condition or provision shall in no way affect any other covenant, condition or provision herein contained, provided that the invalidity of any such covenant, condition or provision does not materially prejudice either party hereto in its respective rights and obligations contained in the valid covenants, conditions or provisions in this Agreement.

Section 15.22. Vending Machines

Airline shall assure that no amusement, vending machines, public pay phones, facsimile, copy machines, or other machines operated by coins, tokens or credit cards are installed or maintained in or at Airline's Exclusive Use Space, Preferential Use Space, or Joint Use Space unless otherwise approved by the Director. Airline self ticket machines shall only be installed, operated or maintained with the prior written approval of the Director, and will be installed within the Airline's Exclusive Use Space or Preferential Use Space in specific locations as approved by the Director.

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Section 15.23. Public Address System

Airline agrees that the use of County's public address, voice and data communication system will be in accordance with County's written public address system policy. Airline shall not install, cause to be installed or use any other such system at the Terminal Building without the prior written approval of Director.

Section 15.24. Employees of Airline

Airline shall require all of its employees, agents, officers, representatives, suppliers, contractors, subcontractors, licensees, subtenants, invitees, and suppliers hired by Airline and working about the Terminal Building to wear clean and neat attire and to display appropriate identification.

Section 15.25. Removal of Disabled Aircraft

Airline shall promptly remove any of its disabled aircraft from any part of the Airport (including, without limitation, runways, taxiways, aprons and gate positions) and place any such disabled aircraft in such storage areas as may be designated by County. Airline may store such disabled aircraft only for such length of time and on such terms and conditions as may be established by County. If Airline fails to remove any of its disabled aircraft promptly, County may, but shall not be obligated to, cause the removal of such disabled aircraft, provided, however, the obligation to remove or store such disabled aircraft shall not be inconsistent with federal and State laws and regulations and Airline agrees to reimburse County for all costs of such removal, and Airline further hereby releases County from any and all claims for damage to the disabled aircraft or otherwise arising from or in any way connected with such removal by County.

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Section 15.26. Licenses, Fees and Permits

Airline shall obtain and pay for all licenses, fees, permits, or other authorization or charges as required under federal, State or local laws and regulations insofar as they are necessary to comply with the requirements of this Agreement and the privileges extended hereunder.

Section 15.27. Airport Access License Permit

County reserves the right to establish a licensing or permit procedure for vehicles requiring access to Airport operational areas and to levy directly against Airline or its suppliers a uniform and nondiscriminatory regulatory or administrative charge for issuance of such Airport access license or permit.

Section 15.28. Energy Conservation

Airline shall comply with all County rules and regulations pertaining to energy conservation and management to the extent that such rules and regulations do not infringe on the rights and privileges granted herein.

Section 15.29. Compliance with Part 77, Title 14, CFR

Airline agrees to comply with the notification and review requirements covered in Part 77, Title 14, Code of Federal Regulations, FAA Regulations, in the event future construction of a building is planned for the leased premises, or in the event of any planned modification or alteration of any present or future building or structure on the leased premises.

Section 15.30. Reservations re: Airspace and Noise

There is hereby reserved to County, its successors and assigns, for the use and benefit of the public, a right of flight for the passage of aircraft in the airspace above the surface of the leased premises. This public right of flight shall include the right to cause in such airspace any

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noise inherent in the operation of any aircraft used for navigation or flight through such airspace or landing at, taking off from, or other operations on the Airport.

Section 15.31. National Emergency

This Agreement and all the provisions hereof shall be subject to whatever right the U.S. Government now has, or in the future may have or acquire, affecting the control, operation, regulation and taking over of said Airport or the exclusive or nonexclusive use of the Airport by the United States during time of war or national emergency.

Section 15.32. Time is of the Essence

Time is of the essence in this Agreement.

Section 15.33. Construction of Certain Words

Words used in this Agreement may be construed as follows:

A. Number.

Words used in the singular include the plural, and words in the plural include the singular.

B. Tense.

Words used in the present tense include the future.

Section 15.34. Noise Abatement and Mitigation

County may, in the future, enact certain regulations for the purpose of minimizing, abating, or mitigating noise resulting from operation of the Airport. County and Airline agree that nothing in this Agreement shall be deemed to impair or in any way affect County's right as Airport proprietor, to the extent of such right, to enact such regulations for noise minimization, abatement, or mitigation purposes, as long as such regulations are otherwise valid under

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applicable laws, or affect or impair Airline's right to challenge any such regulation on any ground other than as a breach or impairment of this Agreement.

Section 15.35. Hazardous Materials

A. Airline shall at all times and in all respects comply with all environmental laws, and any amendments thereto affecting Airline's operation on the Airport, including all federal, state, and local laws, ordinances and regulations relating to Hazardous Material. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste, which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is: (1) defined as a "Hazardous Waste" or "Extremely Hazardous Waste" or "Restricted Hazardous Waste" under Sections 25115, 15117 or 25122.7 or listed pursuant to Section 25140 of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law); (2) defined as a "Hazardous Substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act); (3) defined as a "Hazardous Materials" or "Hazardous Substance" or "Hazardous Waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory); (4) defined as a "Hazardous Substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances); (5) petroleum; (6) asbestos; (7) listed under Article 9 or defined as "Hazardous Wastes" or "Extremely Hazardous" pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20; (8) designated as a "Hazardous Waste" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317); (9) defined as a "Hazardous Waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903); or (10) defined as a "Hazardous Substance" pursuant to Section 101 of the Comprehensive

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Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

B. If Airline causes, or permits the use or storage of hazardous materials resulting in contamination of the leased premises, then Airline shall indemnify, defend and hold County harmless from any claims, judgments, damages, penalties, fines, costs, liabilities or losses which arise during or after the term of this Agreement as a result of such contamination. This indemnification of County by Airline includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean up, remedial, removal or restoration work required by any Federal, State or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the leased premises, excepting pre-existing conditions. Without limiting the foregoing, if the presence of any Hazardous Material on the lease premises caused or permitted by Airline results in any contamination of the leased premises, Airline shall promptly take all actions at its sole expense as are necessary to render the leased premises in compliance with all applicable environmental laws; provided that County's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the leased premises.

C. Airline shall promptly notify County in writing of: (1) any enforcement, clean-up, removal or governmental or regulatory action instituted, completed, threatened pursuant to any Hazardous Materials laws; (2) any claim made by any person against Airline or the leased premises relating to damage, contribution, cost recovery compensation, loss, or injury resulting from or claiming to result from any Hazardous Materials in the lease premises; and (3) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in the leased premises; and (3) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in or removed from the leased premises, including any complaints, notices, warnings or asserted violations in connection therewith (but excluding routine manifests, records or receipts that are submitted to environmental agencies

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for the purposes of documenting waste disposal or product receipt activities). Airline shall also supply to County as promptly as possible, and in any event within ten (10) business days after Airline first receives or sends the same, copies of all claims, reports, complaints, notices, or warnings or asserted violations relating in any way to the leased premises or Airline's use thereof.

D. During the term of this Agreement, upon advance notice, the Director or those authorized by the Director, shall have the right of entry to test and determine the extent of any contamination of the leased premises provided that any such testing shall not unreasonably disrupt or interfere with Airline's operations. The results of such tests (including any reports, documents or test results), shall be simultaneously provided to the Director and Airline.

E. Nothing contained in this Section is intended to limit or otherwise narrow the duties of Airline as set forth in Article 9.

Section 15.36 Authority for Agreement

Airline warrants and represents that it has the right, power, and legal capacity to enter into, and perform its obligations under this Agreement, and no approvals or consents of any persons are necessary in connection with it. The execution, delivery, and performance of this Agreement by the undersigned Airline representatives have been duly authorized by all necessary corporate action of Airline, and this Agreement will constitute a legal, valid, and binding obligation of Airline, enforceable in accordance with its terms.

Sacramento International Airport
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IN WITNESS WHEREOF, the parties have hereto caused this Agreement to be duly executed as of the day and year first written above.

(SEAL)

COUNTY OF SACRAMENTO, a political
subdivision of the State of California

ATTEST: _____
Clerk of the Board of Supervisors

By _____
Chairperson, Board of Supervisors of
the County of Sacramento, California

"COUNTY"

By _____

Title _____
"AIRLINE"

ATTEST: _____
Corporate Secretary of Airline

APPROVED AS TO TERMS AND CONDITIONS:

G. Hardy Acree
Director of Airports

APPROVED AS TO FORM:

Deputy County Counsel

Attorney for Airline

**FIRST AMENDMENT TO SACRAMENTO INTERNATIONAL AIRPORT
SCHEDULED AIRLINE OPERATING AGREEMENT
AND TERMINAL BUILDING LEASE**

This First Amendment to the Scheduled Airline Operating Agreement and Terminal Building Lease (hereinafter "Amendment") is made and entered into this _____ day of _____, 200X by and between the COUNTY OF SACRAMENTO, a political subdivision of the State of California (hereinafter "County"), and AIRLINE NAME, a corporation organized and existing under the laws of the State of _____, and authorized to do business in the State of California (hereinafter "Airline");

W I T N E S S E T H:

WHEREAS, County is the owner and operator of the Airport System located in Sacramento County, California, and has the right to lease portions of this Airport System and to grant operating privileges at airports within the Airport System subject to specified terms and conditions; and

WHEREAS, Airline is a corporation primarily engaged in the business of providing air transportation with respect to persons, cargo, and mail; and

WHEREAS, both County and Airline desire to enter into this Agreement to set forth the rights, privileges, and obligations of both parties with respect to the leased portions of the Airport, and to grant operating privileges at the Airport subject to the terms and conditions hereinafter set forth; and

WHEREAS, both County and Airline desire to enter into this Agreement also to facilitate the development, promotion, and improvement of air commerce; and

WHEREAS, the County and Airline entered into that certain agreement entitled, Scheduled Airline Operating Agreement and Terminal Building Lease on October 31, 2000, and approved through Resolution No. 2000-1300, dated October 31, 2000, (hereinafter "Agreement"); and

WHEREAS, due to an accumulation of a "carry-forward" amount in the Preferential Aircraft Parking Position Fees accounts, which the County desires to apply a portion of the "carry-forward" to the Terminal Building Rents and Fees Accounts to reduce the Terminal Building Rental rate; and

Sacramento International Airport

First Amendment to Scheduled Airline Operating Agreement and Terminal Building Lease

WHEREAS, the Airline agrees that this one time charge would be beneficial, and desires to have the County determined "carry-forward" amount applied to the Terminal Building Rents and Fees Accounts;

NOW, THEREFORE, County and Airline agrees to amend the Airline Operating Agreement and Terminal Building Lease as follows:

SECTION 1: Add Section 6.10 to the Agreement which reads as follows:

Section 6.10 – Special One-time application of "Carry-forward" Amount from Preferential Aircraft Parking to Terminal Building Rents and Fees.

Notwithstanding Sections 6.04, 6.05 and 6.07, or any other provision in this Agreement to the contrary, Airline and County agrees that the County may determine the amount of an accumulated "Carry-forward" amount in the Preferential Aircraft Parking Position Fees accounts which will be transferred to and applied to the Terminal Building Rents and Fees accounts to reduce the Terminal Building Rental rate. County will have sole discretion to determine the amount to be applied. Such application will occur to reduce the Terminal Building Rents and Fees for the period July 1, 2002 to June 30, 2003 only. Other than this one-time adjustment, all other charges, fees and accounts will be handled as stated in the Agreement. However, Airline and County acknowledges that the effect of this one-time adjustment will affect the Terminal Building Rental rate and Preferential Aircraft Parking Position Fees in the current and remaining fiscal years. The County will make necessary adjustments to reflect this as of July 1, 2002.

SECTION 2: Except as otherwise expressly modified or amended herein, all of the terms, conditions, and covenants contained in the Agreement and First Amendment to the Agreement shall remain in full force and effect.

Sacramento International Airport

First Amendment to Scheduled Airline Operating Agreement and Terminal Building Lease

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be
duly executed as of the date and year first above written.

(SEAL)

COUNTY OF SACRAMENTO, a political
subdivision of the State of California

By: _____

Chairperson, Board of Supervisors of the
County of Sacramento, California
"COUNTY"

ATTEST: _____

Clerk of the Board of Supervisors

By: _____

ATTEST: _____

Corporate Secretary of Airline

Print Name

Attorney for Airline

Title

"AIRLINE"

APPROVED AS TO TERMS AND CONDITIONS:

G. Hardy Acree
Director of Airports

APPROVED AS TO FORM:

Deputy County Counsel

ATTACHMENT D
COPY OF SAMPLE GATE MONITORING SYSTEM



SYSTEM DESCRIPTION

GAPS

GATE ALLOCATION AND POSITIONING SYSTEM

**Air Transport IT Services, Inc.
(Formerly Debis IT)**

Version 1.1

Date July 27, 2000

Note:

The following document represents and serves as a sample specification only and is for the intended purpose of describing the Air-Transport IT Services, Inc. solution. A final specification will be drafted and submitted to the customer upon successful award of a contract.

COMMERCIAL IN CONFIDENCE

Author: Air Transport IT Services, Inc (Formerly debis IT)

Title: System Description
GAPS
Gate Allocation and Positioning System

Version: 1.1

Date: Jul 27, 2000

Doc-Ref: SD_GAPS_TPA

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1 System Overview

With its **Gate Allocation and Positioning System (GAPS)**, debis IT has created a solution for the management of non-mobile airport terminal resources, which, as a component of a central information system, significantly contributes to the improvement of an airport's quality of service.

In particular, GAPS supports the management of:

- Stands (pier-served stands and remote stands)
- Gates (including their associated departure lounges)
- Baggage Belts
- Flight and Common Check-In Counters

GAPS eases the burden on Scheduling Managers of optimizing aircraft servicing capacities by supporting the entire process

- from medium to long-term advance scheduling
- to the daily operative mode.

It aids in detecting bottlenecks in a timely manner and in avoiding conflicts. With one mouse click, it is possible to obtain an instant overview of the resource allocations for the entire day.

Because GAPS is linked to the central database online, all data archives are always up-to-date: Flight-related updates from the airport information system (from the Flight and Airport Information System (FAIS) by debis IT, for example) are considered with respect to the current resource allocations in the operational GAPS data archive, and their effects are visualized. Conversely, all allocation modifications for updating the Flight Schedule are reported back to the central information system.

To enable scheduling managers to concentrate on their critical tasks, GAPS streamlines resource allocation

- with its partially automated management support
- and automatic conflict check,

thereby considerably reducing routine tasks.



GAPS – Thinking Ahead

Since the acceptance of new IT-solutions depends on user-friendliness more than anything, special consideration was given to the ergonomic graphical user interface during the development of GAPS: The system displays all resource allocations by means of an easily viewable bar chart, offers easy-to-learn information and maintenance displays for every phase of the job and allows modifications to be made easily using the "drag and drop" technique.

Apart from comfortable operation, the second essential advantage of IT-based systems for the user is found in the marked reduction of routine tasks. Even during the scheduling phase, GAPS minimizes the time spent in coordination by enabling existing templates to be wholly or partly used during the creation of new allocation scenarios.

If desired, GAPS will automatically assist in solving conflicts and suggest alternatives for allocating resources which are conflict-free from the start. But even during manual operation, the advanced plausibility check always ensures that operational errors will be noticed before they can cause damage. And because every authorized user can define and modify the applicable rules, the system is always up-to-date.

As a Client/Server solution with interfaces to all relevant data archives, GAPS automatically considers all changes of information from the central database and any changes to resource allocations made by other GAPS operators, carries out an automatic update of the displayed information and modifies the allocations independently.

An Overview of GAPS Features

With GAPS, debis IT has realized a management system, which, thanks to its open architecture, can easily be integrated into the most diverse environments and adapted to future designs. This not only saves high developmental costs during start-up, but also ensures a high degree of investment protection over the long term. GAPS is equipped with the following individual performance characteristics:

- State-of-the-art client/server and multi-user concept
- User-friendly graphical user interface
- Medium and long-term advance scheduling for resource allocation
- Automatic, rule-based conflict detection
- Scheduling manager support through concrete, conflict-free proposals
- Online-connection of the operational data to the airport information system
- Easy link-up to the existing system architecture.