



City of San Antonio

Agenda Memorandum

File Number:20-4617

Agenda Item Number: 15.

Agenda Date: 9/3/2020

In Control: City Council A Session

DEPARTMENT: Aviation

DEPARTMENT HEAD: Jesus H. Saenz, Jr., IAP

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorization of Agreements Governing Airline Operations at the San Antonio International Airport

SUMMARY:

This Ordinance authorizes the Airline Operating Agreement and Terminal Building Lease, also known as the Airline Use and Lease Agreement (Agreement), for the San Antonio International Airport (Airport), which governs an airport/airline business relationship (rates and charges) and specifies the terms and conditions for use of airfield and terminal facilities. The Agreement has an initial term of one year, commencing on October 1, 2020, with the option to extend for two additional periods. If exercised, the first extension is for a one-year period and the second extension is for a five-year period.

This action also authorizes revisions to the Airline Operating Permit for airlines who do not want to commit to the Agreement but would like to continue operating at the Airport. The revisions align the Permit with the proposed Agreement.

BACKGROUND INFORMATION:

In 2011, City Council approved the current agreement, through Ordinance 2011-11-17-0971, for an initial five-year term with the option to extend up to five additional years. This agreement, set to expire on September 30, 2020, includes provisions governing rates and charges, performance guarantees, security, insurance, environmental compliance and indemnification for signatory airlines operating at the Airport. Due to the complexity of the issues involved in these agreements and the fact that the airline representatives are in multiple negotiations with other airports, the negotiations typically require 18 to 24 months. In 2018, the City

initiated negotiations to develop a new Agreement with Southwest Airlines, American Airlines, Delta Air Lines, United Airlines, Frontier Airlines, Federal Express and United Parcel Service (UPS) with the following goals:

1. Simplify the rate-making methodology
2. Incorporate amortization for capital projects
3. Increase cash availability to fund capital projects
4. Apply Non-Signatory Airline premiums consistently
5. Update leased premises diagrams and space allocations
6. Update the insurance, indemnification and environmental terms
7. Increase the flexibility of the airport for airline review and input on capital projects

ISSUE:

Over the past 24 months, the airlines and Airport were able to negotiate a new Agreement that met the goals set out in 2018 including:

1. Simplify the rate-making methodology which:
 - a. maintains full cost recovery for airport maintenance and operations
 - b. generates adequate discretion cash flow to fund airport capital projects
 - c. maintains airport compliance with requirements for debt service coverage
 - d. maintains competitive cost per enplanement (CPE) for both signatory and non-signatory carriers
2. Maximizes efficient use of Airport facilities through expanded implementation of Common Use technology throughout the Terminals and the strengthening of gate utilization requirements
3. Insures airport capital projects not funded through debt are included in the rate base
4. Expands definition of signatory airlines to include cargo carriers
5. Receives support from airlines for FY 2021 to FY 2025 Capital Improvement Program
6. Updates requirements for insurance, indemnification, and environmental compliance

Overall, the Agreement ensures that Airport rates and charges are competitive compared to peer airports while allowing for capital upgrades and expansion to continue to attract additional and new service to the Airport once the industry begins to recover from the pandemic.

All major airlines and cargo carriers operate under the same basic lease and one airline must sign the agreement for it to be executable. Southwest Airlines and UPS have signed the agreements. For the airlines and cargo carriers that do not want to commit to the term of the Agreement, they can operate at the Airport under the revised Permit. Airlines have until September 30, 2020 to return a signed Use and Lease Agreement be considered a signatory airline. With the new agreement, revisions were made to the Permit to align the two documents.

ALTERNATIVES:

City Council could decide to not approve this item and extend the current agreement while another agreement is negotiated. However, the new Agreement took more than 18 months to negotiate and a new agreement, commencing in a post-COVID environment, will likely take at least that amount of time to develop. The Agreement, with its initial one-year term, and subsequent extension options of one-year and five-years, offers both the airlines and City with a competitive Agreement.

FISCAL IMPACT:

In the first year, it is estimated that revenues in the amount of \$39,621,679.00 will be generated by the Agreement through the rents of terminal space, passenger loading bridges, apron fees and baggage handling from the signatory airlines. Revenues will be deposited into the Airport Operating and Maintenance Fund.

RECOMMENDATION:

Staff recommends the authorization of the new Airline Operating Agreement and Terminal Building Lease Agreement and the revisions to the Airline Operating Permit at the San Antonio International Airport.