



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 6

Agenda Date: September 12, 2024

In Control: City Council A Session

DEPARTMENT: Aviation Department

DEPARTMENT HEAD: Jesus H. Saenz Jr.

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorizing the City Manager or designee to execute the Agreements Governing Airline Operations at the San Antonio International Airport

SUMMARY:

This Ordinance authorizes the City Manager or designee to execute Airline Operating Agreement and Terminal Building Leases, also known as the Airline Use and Lease Agreements (Agreement or AULA), for the San Antonio International Airport (Airport) with qualifying airlines. The Agreement governs the 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 ten years, commencing on October 1, 2024, with the option to extend for one five-year additional period.

This action also authorizes the City Manager or designee to execute the revised Airline Operating Permit with 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:

Airports and airlines typically enter into an airline lease and use agreement, which governs the airport/airline business relationship (rates and charges) and specifies the terms and conditions for use of airfield and terminal facilities. The AULA includes provisions governing rates and charges, performance guarantees, security, insurance, environmental compliance and indemnification for signatory airlines (currently, American Airlines, Delta Air Lines, Federal Express, Southwest Airlines, Spirit Airlines, United Airlines, United Parcel Service and Viva Aerobus) operating at the Airport.

In 2020, City Council approved the current agreement, through Ordinance 2020-09-03-0604, for an initial one-year term with the options to extend for a one-year period followed by a five-year period. The City authorized the first extension for one-year but did not execute the second option. With the completion of the Strategic Development Plan, approved by City Council in November 2021, the decision was made to not approve the second extension of a five-year period but to negotiate an amendment to the current agreement for a term of two years, with revisions, that was approved by City Council through Ordinance 2022-12-15-0972. This decision has allowed the City and airlines time to negotiate a new long-term agreement to align with the new Terminal Development Program (TDP) being developed. Once executed, the amendment provided a two-year extension that allowed the City and airlines to negotiate a new AULA to supersede and replace the current agreement.

ISSUE:

Representatives from the airlines and Aviation Department have been in negotiation on a new agreement since April 2022. All major airlines and cargo carriers operate under the same basic lease and one airline must sign the Agreement for it to be executable by the City. American Airlines, Delta Air Lines, Spirit Airlines and United Parcel Services have signed a Letter of Support stating their support of the terms and conditions in the Agreement and their intent to execute the Agreement by December 31, 2024, in substantially similar form, to include the associated exhibits, which are being finalized. Airlines have until September 30, 2024 to return a signed Letter of Support and those air carriers have until December 31, 2024, to execute the AULA and become a signatory airline and have signatory rates apply as of October 1, 2024.

As with previous AULAs approved by City Council, air carriers that do not wish to commit to the terms of the agreement can operate at the airport by executing the revised Operating Permit. Airlines that choose to operate in “non-signatory” status do not enjoy certain benefits of signatory status, which include input into capital development decisions, preferential rights on designated gating assignments and revenue sharing, and they pay premium rates when compared to signatory carriers. With the new Agreement, revisions were made to the Permit to align the two documents.

The following has been negotiated and are included in the Agreement:

1. A long-term commitment by the signatory airlines to the Airport (with a term of 10 -15 years), including the leasing of gates and other space as of the effective date of the Agreement, with a commitment to lease additional space at Date of Beneficial Occupancy of the new terminal.
2. Authorization and pre-approved funding for the TDP and certain other capital projects from the airlines’ rates and charges, including pre-approved funding for Terminal A renovations up to \$200 million and Terminal B renovations up to \$100 million.

3. Outlines airline participation and partnership in the TDP design and construction process.
4. Commitments from the signatory airlines to providing extraordinary coverage for General Airport Revenue Bonds related to TDP.
5. A revised financial methodology for setting airline rates and charges, including the sharing of non-airline revenue (e.g., concessions) with the airlines.

ALTERNATIVES:

City Council could decide to not approve this item and extend the current agreement while another AULA is negotiated. However, the Agreement took close to two years to negotiate, and a new agreement will likely take at least that amount of time to renegotiate. Multiple airlines have signed the Letter of Support at the time of this memo's preparation indicating their commitment to the new Agreement..

FISCAL IMPACT:

In the first year, it is estimated that revenues in the amount of \$76,158,598 will be generated by the Agreement through the rents of terminal space, passenger loading bridges, apron fees and baggage handling from the signatory airlines. Over the potential 15-year term, it is estimated that the agreement will generate an estimated revenue of \$3.2 billion. Revenues will be deposited into the Airport Operating and Maintenance Fund.

RECOMMENDATION:

Staff recommends the authorizing the City Manager or designed to execute the new Airline Operating Agreement and Terminal Building Lease Agreement and the revised Airline Operating Permit at the San Antonio International Airport.