



Council Communication

Office of the City Manager

Date

April 20, 2009

Agenda Item No. 24

Roll Call No. 09-

Communication No. 09-252

Submitted by: **Craig Smith, Aviation Director**

AGENDA HEADING:

Setting date of hearing to consider agreement with Continental Airlines, Inc. regarding airline operations at the Des Moines International Airport.

SYNOPSIS:

Item will set date of Public Hearing for approval of a new Scheduled Airline Operating Agreement and Terminal Building Lease with Continental Airlines, Inc., with an effective date of May 1, 2009, and an expiration date of June 30, 2013.

FISCAL IMPACT:

Amount: \$11,394,959

Funding Source: Revenue received under this agreement will be deposited in AIR010100, EN002 FY09-10 Operating Budget, page 24

ADDITIONAL INFORMATION:

The proposed Scheduled Airline Operating Agreement and Terminal Building Lease (the "Signatory Agreement") continues the rate-making methodology consistent with, and in support of, the Airport Board's responsibility to maintain a positive cash balance in the Airport Enterprise Fund. Aviation Department Operating and Capital Improvement Plan Budgets have been developed and approved based on these established rates and charges. For FY2009, revenue from the Signatory Airlines is expected to total \$11,394,959, which amounts to 44.2% of Aviation Department revenue. Continental Airlines is one of eight airlines providing regularly-scheduled passenger service; they control approximately 3% of the passenger traffic at the Airport and thus pay a proportionate share of airport fees.

The "Scheduled Airline Operating Agreement and Terminal Lease" and "Cargo Airline Operating Agreements" (together referred to as the "Signatory Agreements") expired

on September 30, 2008. For the past two years Aviation Department Staff has worked diligently with the negotiating committee representing the incumbent air service carriers and, although the negotiation process took longer than expected, last fall both sides ultimately reached agreement on all terms for a new, 5-year agreement.

Some of the more significant changes achieved during negotiations include:

- Terminal rent billings to the airlines were greatly simplified by reducing the various types and classes of space, and previous charges for equipment fees and improvement fees have been combined into the terminal rent rate for costing and invoicing purposes.
- If an airline elects to discontinue service prior to expiration of the five-year term, they are not obligated to pay terminal rent beyond one year. In essence, this becomes a one-year agreement.
- Airlines will receive a larger share of Airport profits, up to \$850,000 from \$650,000.
- A requirement for cargo carriers to occupy 1,500 minimum square footage was removed.
- An airline can now enter into a contract with any third party for ground-handling.
- The Aviation Department will assume maintenance (including preventative) of all bag belt systems, inbound and outbound, and absorb those costs into the Terminal cost center.
- The Aviation Department has adjusted insurance requirements based on the unique way airlines acquire insurance.

The new agreement continues in large part the established rates and charges formula as outlined in the previous Signatory Agreements, as established in the approved FY2009 Operating Budget, and as reflected in the current Airport Regulations.

The financial methodology of the Signatory Agreement at the Des Moines International Airport (DSM) can best be described as a hybrid, meaning it contains aspects of both the Compensatory Form of Agreement and the Residual Form of Agreement. The Compensatory Form is generally defined as an agreement in which an airline agrees to compensate the airport for its use of the facilities, and whereby rates for leasing gates and for landing and take-off slots are specifically set and spelled out in the agreement. The Residual Form is generally defined as an agreement in which airlines are accountable for shortfalls caused by additional costs of the airport not covered by previous payments as related to areas such as gates, landings, and ground-related revenues.

Prior to September 30, 2008, the presence of Continental Airlines at DSM was through an agreement with one of its affiliated carriers, ExpressJet Airlines, Inc. ExpressJet is a regional carrier which operates flights on behalf of the mainline carrier. Because of an uncertain relationship between the two airlines, neither side was able to execute the agreement timely last Fall. It was agreed by all parties that Continental would have non-signatory status at DSM until

they resolved the internal issues. Obviously with these issues now resolved, the mainline carrier has stepped forward to execute a long-term agreement.

PREVIOUS COUNCIL ACTION(S):

Date: July 28, 2008

Roll Call Numbers: 08-1352 to 08-1360

Action: On amendments to current agreements, extending the scheduled airline operating agreements and terminal building leases at the Des Moines International Airport, through September 30, 2008, for the following: (Council Communication No. 08-432)

BOARD/COMMISSION ACTION(S):

Date: April 7, 2009

Resolution Number: A09-071

Action: Recommend Approval to City Council of Scheduled Airline Operating Agreement and Terminal Lease with Continental Airlines, Inc. Moved by Mr. Hansell to adopt. Motion carried: 7-0

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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