CITY OF DES MOINES	**Council Communication** Office of the City Manager	**Date**	October 13, 2008
		Agenda Item No. 33 **Roll Call No.** 08- **Communication No.** 08-616 **Submitted by: Craig Smith, Aviation Director**	

AGENDA HEADING:

Setting date of hearing to approve Signatory Airline operating agreements with Allegiant Air, LLC, American Eagle Airlines, Inc., Delta Air Lines, Inc., ExpressJet Airlines, Inc. (operating as "Continental Express"), Midwest Airlines, Inc., Northwest Airlines, Inc., United Air Lines, Inc., US Airways, Inc., United Parcel Service Co., and Federal Express Corporation regarding airline operations at the Des Moines International Airport through June 30, 2013.

SYNOPSIS:

Recommend approval of setting the date of Public Hearing for approval of new, five-year airline operating agreements with ten of the eleven airlines as highlighted above which are currently providing scheduled service at the Des Moines International Airport.

FISCAL IMPACT:

Amount: $11,394,959 (revenue)

The proposed Signatory Agreement continues the established rates and charges which are consistent with, and in support of, the Airport Board's responsibility to maintain a positive cash balance in the Airport Enterprise Fund. They also reflect certain rates which may be periodically adjusted through the Des Moines International Airport Regulations. Aviation Department Operating and Capital Improvement Plan Budgets have been developed and approved based on these established rates and charges. For FY2009, this revenue amounts to 44.2% of Aviation Department revenue.

Funding Source: Revenue received under these agreements will be invoiced and credited to the Aviation Department Enterprise Operating Fund (EN002).

ADDITIONAL INFORMATION:

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 18 months, Aviation Department Staff has worked diligently with the negotiating committee from the incumbent air service carriers and, although the negotiation process took longer than expected, 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 latter stages of the negotiations included a discussion of insurance and environmental requirements – Aviation Staff had previously understood these sections were not to change but agreed to resolve a few lingering issues at the end of negotiations. For the insurance and environmental sections, the adopted language represented a compromise between the negotiating team of the City (Deputy Aviation Director – Finance & Administration, Assistant City Attorney assigned to the Airport, the City of Des Moines Risk Manager, and the Environmental Manager), and a team of airline experts.

The Agreement continues in large part the established rates and charges a formula as outlined in the previous Signatory Agreements, as established in the Board-approved FY2009 Operating Budget, and as reflected in the Des Moines International Airport Regulations.

The financial methodology of the Agreement can best be described as a hybrid, meaning it contains aspects of both the Compensatory Form of Agreement (generally defined as an agreement in which an airline agrees to compensate an airport for its use of the facilities, and whereby rates for leasing gates and for landing and take-off slots are specifically spelled out in the agreement), and the Residual Form of Agreement (generally defined as an agreement in

which airlines are accountable for additional costs of the airport not covered by previous payments as related to areas such as gates, landings, and ground-related revenues).

The Agreement divides the Airport into five cost centers. The Airport's costs related to three of these cost centers (Terminal Building, Airfield, and Apron Area) are generally recovered through charges to airlines. Costs related to Parking and Roadways are absorbed by the Aviation Fund. The Terminal Cost Center employs a modified Compensatory Form of Agreement, while the Airfield and Apron Cost Centers more closely resemble a Residual Form of Agreement. The Signatory Agreement also contains a Net Income sharing component for the passenger airlines.

There is one cargo carrier currently providing scheduled service at DSM that has elected not to sign the Signatory Agreement at this time. ABX Air, Inc. (operating as DHL) was a long-time Signatory carrier but has opted out of the agreement due to an impending service consolidation with another carrier. They, along with any "other" carriers providing service at DSM but not executing a Signatory Agreement, understand that they will be paying landing fee charges 40% higher than those carriers with Signatory status, they will not share in net income or losses of the Airport, and they will not be subject to a year-end reconciliation of rates and charges.

PREVIOUS COUNCIL ACTION(S):

Date: July 28, 2008

Roll Call Numbers: 08-1352 to 08-1360

Action: Extending Signatory Agreements until September 30, 2008, for Allegiant Air LLC; American Eagle Airlines, Inc.; Comair Airlines, Inc.; ExpressJet Airlines, Inc.; Midwest Airlines, Inc.; Northwest Airlines, Inc.; United Air Lines, Inc.; Mesa Airlines, Inc.; United Parcel Service Co.; ABX Air, Inc., and Federal Express Corporation Moved by Ms. Hensley to adopt. Motion carried 7-0

BOARD/COMMISSION ACTION(S):

Date: October 7, 2008

Resolution Numbers: A08-210 through 219

Action: Recommending Approval to City Council of Amendments to Scheduled Airline Operating Agreements (and Terminal Leases where applicable) with

a) Allegiant Air LLC;
b) American Eagle Airlines, Inc.;
c) Delta Air Lines, Inc.;
d) ExpressJet Airlines, Inc.;
e) Midwest Airlines, Inc.;
f) Northwest Airlines, Inc.;

g) United Air Lines, Inc.;
h) US Airways, Inc.;
i) United Parcel Service Co; and,
j) Federal Express Corporation

Moved by Mr. Gentry to adopt. Motion carried: 7-0

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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