

AGENDA



Thursday, September 27, 2007

Aviation

Item No. 8

RECOMMENDATION FOR COUNCIL ACTION

Subject: Authorize negotiation and execution of a lease and related documents and agreements with GE Commercial Aviation Services, LLC for up to 40 acres of land at Austin-Bergstrom International Airport to construct, operate and maintain a low cost “no-frills” airport terminal, and associated uses including, but not limited to, car parking, rental car facilities, and ground transportation staging for a term not to exceed thirty years from the date of beneficial occupancy of the new terminal at a rental of not less than \$0.22 per square foot plus a percentage of net revenue.

Fiscal Note: There is no unanticipated fiscal note. A fiscal note is not required.

For More Information: Jim Smith, Executive Director, 530-7518 or David Petersen, General Counsel, 530-7526

Boards and Commission Action: Recommended by the Austin Airport Advisory Commission. Related to item # 78.

Prior Council Action: Staff briefing presentation was made by Jim Smith on June 21, 2007. City Council approved negotiation of a lease on August 23, 2007.

The Department of Aviation has been approached by vivaAerobus, an international airline which operates under an ultra low cost model pioneered by such European airlines as RyanAir and EasyJet. This carrier offers a no frills approach to air travel, and is willing to forego many common airport amenities such as jet bridges, automated baggage handling systems, etc. in order to reduce its costs to the maximum extent. These reduced costs translate into substantially lower air fares for their customers. The ultra low cost model has taken over Europe, Asia, and increasingly Mexico. Persons traveling on ultra low cost airlines will pay rock-bottom air fares, but will pay more for extra services that are typically provided at no cost by mainline airlines.

vivaAerobus has selected Austin as its sole Texas destination, and will offer new non-stop service to six currently unserved destinations in Mexico, including Monterrey and Cancun. It expects to create new air travel markets by attracting customers from a two hundred mile radius around Austin due to its extremely low fare structure. A significant part of the Airport’s mission is to maximize Austin’s access to new non-stop destinations, especially international destinations. The prospect of new international service is exciting, but it was clear that the Airport had to re-think the way it operates to bring in this low cost airline.

First, this ultra low cost model does not work well in the existing passenger terminal at Austin-Bergstrom International Airport. The terminal was designed and constructed to serve traditional airlines such as Southwest and American, is relatively new and was financed by the issuance of airport revenue bonds. These factors dictate a cost structure that would be prohibitive for the ultra low cost airline.

Second, vivaAerobus proposes to commence Austin operations this fall. In order to have a facility that meets the airline’s needs operational in time to meet its aggressive timetable, ABIA needed a private partner with the necessary speed, expertise, and ability to share the risks of what is an untried business model in the United States.

GE Commercial Aviation Services LLC (GECAS) owns and operates Cargoport, the largest cargo facility at ABIA. GECAS is increasingly involved in low cost airport and airline development in Europe and Asia. GECAS has offered to design, build, operate and maintain a new low cost terminal at the Airport. Initially they propose to install a modular temporary terminal of approximately 25,000 sq. ft. in area with three gates. When passenger levels reach an agreed level, the temporary terminal would be replaced by a permanent no-frills terminal specifically designed with the needs of the ultra-low cost carrier in mind. The proposed terminal would be located in the center of ABIA in the vicinity of the old Texas National Guard facilities and the maintenance ramp, south of the Barbara Jordan terminal. Access to the new facility would be from the South via U.S Hwy 183, Burleson Road and General Aviation Avenue. The exact location of the interim and permanent terminal will be determined after completion of the necessary due diligence and site investigations.

The proposed transaction would be structured as a lease, and will include a site for the new terminal, as well as areas for parking within convenient walking distance, ground transportation services such as taxis, and an area for rental cars. GECAS would operate and maintain the parking lot for the new terminal. At the end of the term of the lease, title to the facility would transfer to the City. GECAS would pay ground rent, at the airport's established rates. In addition the parties will share the net commercial revenue generated by the project (rental car concession fees, parking, and terminal concessions). The proposed lease would be essentially similar to other Airport leases with third parties operating facilities on the Airport including the cargo facilities, fixed base operators and the hotel.