

AGENDA



Recommendation for Council Action

Austin City Council	Item ID	46441	Agenda Number	2.
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Meeting Date:	6/11/2015	Department:	Aviation
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Subject

Authorize negotiation and execution of a lease with Highstar Capital IV, L.P. for up to 30 acres of land at Austin-Bergstrom International Airport to improve, operate, and maintain an ultra-low cost airport terminal for a 30-year term with two 5-year extension options.

Amount and Source of Funding

Fiscal Note

There is no unanticipated fiscal note. A fiscal note is not required.

Purchasing Language:	
Prior Council Action:	
For More Information:	Jim Smith, Executive Director, (512) 530-7518; Susana Carbajal, Assistant Director, (512) 530-6364.
Council Committee, Boards and Commission Action:	To be reviewed by the Austin Airport Advisory Commission on June 9, 2015.
Related Items:	
MBE / WBE:	This agreement will be executed in compliance with the Third Party Resolution No. 20120112-058 and requirements of Chapter 2-9 (A-B) of the City Code (Minority-Owned and Women Owned Business Enterprise Procurement Program).

Additional Backup Information

Airline consolidation, route reductions, and higher air fares in the air service industry have created opportunities for ultra-low cost air carriers to competitively enter the marketplace. Two out of the three domestic ultra-low cost air carriers have approached the Department of Aviation (Aviation) to support their business model.

Allegiant Air (Allegiant) and Frontier Airlines (Frontier) both operate under an ultra-low cost business model pioneered by European airlines such as RyanAir and EasyJet and a Mexican airline such as VivaAerobus. Frontier operates scheduled flights and Allegiant operates both scheduled and charter flights. Both airlines prefer to forego many traditional airport amenities such as jet bridges and automated baggage handling systems to maximize cost reductions. In turn, these reduced costs are passed on to passengers with substantially lower airfares in comparison to legacy carriers. In general, passengers traveling on ultra-low cost airlines will pay low airfare tickets with the option to pay for additional services. Austin-Bergstrom International Airport (ABIA) currently has a terminal facility designed to complement the ultra-low cost airline business model.

In 2008, ABIA opened a low-cost terminal that was designed, built, and operated by General Electric Capital Aviation Services. The low-cost terminal was referred to as the "South Terminal". The South Terminal is located south of the Barbara Jordan Terminal. The public may access the South Terminal from the south via U.S. Highway 183, Burleson Road, and Emma Browning Avenue. The South Terminal is a single-story corrugated metal building with three aircraft loading positions and built with over 1,100 public parking spaces and ground transportation staging areas. At that time, VivaAerobus offered non-stop services to six destinations in Mexico for over one year until national economic factors contributed towards discontinued service.

The South Terminal is now sought by Allegiant and Frontier to provide ultra-low cost air service to the public. Frontier and Allegiant propose to expand their Austin operations this winter. The Barbara Jordan Terminal is limited in available space to accommodate their expanded operations. Accordingly, the South Terminal has the capacity to meet their business model and expanded operations.

Highstar Capital IV, L.P. (Highstar) is an established global airport operator with experience in financing, reactivating, and operating aviation facilities throughout the world. In particular, Highstar is involved in low-cost airport and airline service development and has proposed to provide the initial investment necessary to make the capital improvements in order to reactivate and operate the South Terminal and expand ultra-low cost air service at ABIA.

Under its lease agreement with Aviation, Highstar will lease up to 30 acres to improve, operate, and maintain the South Terminal, including the aircraft apron parking as well as adjacent areas for public parking, ground transportation, and rental car services. The term of the lease will be for 30 years with two 5-year extension options. The lease will comply with the City's Minority-Owned Business Enterprise, Women-Owned Business Enterprise, and Disadvantaged Business Enterprise programs. At the end of the term of the lease, the facility and its improvements shall revert to the City.

Highstar will pay Aviation ground rent (adjusted every five years per the Consumer Price Index) plus a percentage of commercial revenue generated by facility operations. Additionally, all landing fees and passenger facility charges shall be paid to Aviation.