

CITY OF FLAGSTAFF STAFF SUMMARY REPORT

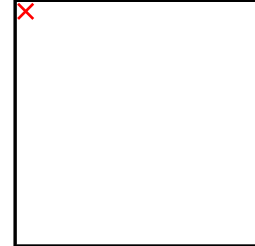
To: The Honorable Mayor and Council

From:

Co-Submitter: Barney Helmick, Airport Director, Stacey Brechler-Knaggs,
Grants & Contracts Manager

Date: 02/27/2019

Meeting Date: 03/05/2019



TITLE:

~~Consideration and Approval of Contract: Lease Agreement with United Airlines~~

STAFF RECOMMENDED ACTION:

~~Approve Lease Agreement and authorize the City Manager to make any non-substantive changes to the Lease Agreement.~~

Executive Summary:

Staff was directed by previous Councils and City Manager's office to secure an additional airline. Approval of the Lease Agreement with United Airlines will allow for an additional airline which will provide competition and new destinations for the citizens of Flagstaff and surrounding areas.

The final lease agreement will be attached to the staff summary for the Final Agenda.

Financial Impact:

Article 2. Term

2.02 Term

- The term of the Lease shall be for 10 years with two 5-year extensions. Either party can terminate Lease upon 90 day written notice.

Article 6. Rents, Fees and Utilities

6.01 Rental Amount

- \$36,000 per year for 1,027 square feet of Ticket Counter space/storage.

6.01.1 Storage

- \$.34 per square foot for semi-permanent storage unit.

6.01.2 Landing Fee

- Airline shall pay City \$1.09 per thousand pounds of declared maximum certified gross landing weight of aircraft landed.

6.05 Rate Adjustment.

- 2% increase annually at anniversary date of commencement of lease.

6.06 Utilities

- City to pay water, gas, sewer, electric.

Article 7. Payment Provisions**7.02 Taxes**

- Airline responsible for all taxes.

7.04 Fuel Charges

- Airline responsible for all fuel costs.

Policy Impact:

None

Connection to Council Goal, Regional Plan and/or Team Flagstaff Strategic Plan:

ECONOMIC DEVELOPMENT

Grow and strengthen a more equitable and resilient economy

Has There Been Previous Council Decision on This:

No

Options and Alternatives:

Approve the Lease Agreement

Do not approve and redirect Staff

Background and History:

Staff was directed by previous Councils and City Managers to secure an additional airline. Staff has visited with various air carriers and attended multiple conferences to encourage an airline to come to Flagstaff. Two marketing campaigns were developed and which helped to increase enplanements by 3% the first year and 9.2% the second year. The marketing campaigns consisted of multiple videos, business reports, enplanement charts, and travel reports which showed an increased demand for air service for the city of Flagstaff. The staff received multiple letters of support from NAU, the business community, Sedona, Winslow, and Williams. Additionally, Staff secured a U.S. Department of Transportation, Small Community Air Service Development Grant for \$800,000 to offset startup costs for a new air carrier.

Key Considerations:

Approving the Lease Agreement with United Airlines will provide additional air transportation options for Flagstaff and surrounding areas which in turn may increase tourism and provide for additional business growth in our community.

80% of those who live in the Flagstaff and surrounding areas choose to fly out of Phoenix. With additional air service, the City will be able to capture a portion of this market to recoup revenue that's lost.

Community Benefits and Considerations:

The Minimum Revenue Guarantee Agreement with United Airlines will be presented to Council for approval. This agreement provides grant funds in the amount of \$800,000 through the Small Community Air Service Development Grant which will provide reimbursement to the City of Flagstaff for a guaranteed minimum revenue to United Airlines.

Community Involvement:

United Airlines is a new carrier that will provide a new destination with additional travel options for our community. Initial startup will be seven days a week, with two flights per day departing in the morning and mid-day on an ERJ-145 aircraft which seats 50 passengers between Flagstaff and Denver. United offers final destinations that our current carrier does not offer. If this route is successful it could lead to additional non-stop destinations. This new carrier offers customers new opportunities to connect to United's domestic and international route network.

Expanded Options and Alternatives:

Northern Arizona Center for Technology (NACET), Economic Collaborative of Northern Arizona (ECONA), Northern Arizona University (NAU), W. L. Gore & Associates, Coconino Community College, and other business leaders have worked with the City to encourage new air service.

Attachments: Draft Lease Agreement
 Exhibit A
 Exhibit B