

AGENDA REPORT

Ordinance: Approve the Terms and Conditions of an *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* with Frontier Airlines, Inc., with Anticipated Annual Revenues of \$2,180,233, Operating at Oakland International Airport and Authorize the Executive Director to Execute Both Agreements. **(Aviation)**

MEETING DATE: 1/28/2021

AMOUNT: \$2,180,233 Annual Revenue

PARTIES INVOLVED: Frontier Airlines, Inc.
Denver, Colorado
Barry Biffle, President, CEO & Director

SUBMITTED BY: Bryant L. Francis C.M., Director of Aviation

APPROVED BY: Danny Wan, Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

This action would give first reading to an ordinance to 1) approve the terms and conditions of the Port's standardized *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* with Frontier Airlines, Inc. (Frontier), and 2) authorize the Executive Director to execute the *Airline Operating Agreement* and *Annex "A" Space/Use Permit*.

BACKGROUND

Most regularly scheduled passenger and cargo airlines operating at Oakland International Airport (Airport or OAK) have entered into an *Airline Operating Agreement* (AOA); those airlines occupying exclusive terminal space at the Airport have also entered into an *Annex "A" Space/Use Permit* to the *Airline Operating Agreement* (SUP). All airlines subject to these agreements pay fees to the Airport pursuant to the Port's annual Rates & Charges ordinance. The standard form AOA and the SUP with all incumbent airlines have a term extending through September 30, 2021¹, subject to the right of either party to terminate upon thirty days written notice.

¹ Pursuant to Ordinance no. 4391 adopted by the Board of Port Commissioners (the "Board") on September 22, 2016, the existing AOA (and if applicable, the SUP) with twenty-three airlines was amended, extended and updated to include a fixed expiration date of September 30, 2021. For consistency, all new airline entrants will enter into an AOA with a concurrent September 30, 2021 expiration date.

ANALYSIS

Operation: Frontier is headquartered in Denver, Colorado and operates more than 100 Airbus A320 aircraft and has the largest A320neo fleet in the U.S. serving approximately 100 destinations in the U.S., Caribbean, and Mexico. Frontier's use of these aircraft, seating configuration, weight-saving tactics and baggage process have together contributed to an average of 43 percent fuel saving compared to other U.S. airlines, making Frontier the most fuel-efficient U.S. airline.² Frontier will commence operations in OAK starting in February 2021 with flights to Denver and Las Vegas. Beginning in March 2021, Frontier will increase frequencies to these two destinations as well as introduce Phoenix as an additional destination.

Facilities: Frontier will be operating from Terminal 1 on a common use basis. Frontier will also be occupying approximately 300SF of exclusive use office space (Category II rate). The annual terminal charges (secondary gate use fees, baggage charges and space rent) based on FY2020-21 Rates and Charges is \$1,327,688.

Revenue: Frontier will commence operations on February 4, 2021, with initial flights to Denver four times per week and Las Vegas two times per week. Frontier will increase the frequencies to these destinations starting on March 11th, with Denver increasing to daily flights and Las Vegas increasing to four times per week. Frontier will also be adding Phoenix as an additional destination starting March 11th, with four weekly flights. Given the anticipated schedule, Frontier is expected to generate approximately \$2,180,234 in total annual revenue attributable to the sum of facilities rent (shown above), landing fees, secondary gate use, baggage fees, PFC's and other charges³.

Performance Deposit: \$510,000 for the AOA plus \$40,000 attributable to the SUP (approximately three times average monthly billings under each contract):

	AOA		SUP	
	Contract Security		Security Deposit	
	Annual	Monthly	Annual	Monthly
Space Rental			\$143,352	\$11,946
Landing Fees	\$393,155	\$32,763		
Secondary Use Fees	334,620	27,885		
Baggage Charges	849,716	70,810		
PFCs	459,391	38,283		
Monthly Totals		\$169,740		\$11,946
Three-Times (3x)		\$509,221		\$35,838
Round Up		\$510,000		\$40,000

² Fuel savings is based on Frontier Airlines' 2019 fuel consumption per seat-mile compared to the weighted average of major U.S. airlines.

³ Based on FY2020-2021 Rates & Charges, Ordinance No. 4566.

Term Sheet:

- a. Permittee: Frontier Airlines, Inc.
- b. Permittee Address: 4545 Airport Way, Denver, CO 80239
- c. Term: February 1, 2021 – September 30, 2021⁴
- d. Revenue: \$2,180,233 Annual Revenue
- e. Rent Escalators: Rates and Charges
- f. Security Deposit: \$550,000 (\$510,000 for the AOA plus \$40,000 attributable to the SUP)



BUDGET & STAFFING

During the development of the FY2020-21 Operating Budget, this new AOA and SUP with Frontier was not contemplated and therefore for the remaining five months of FY2020-21, the Airport anticipates collecting \$908,431 in incremental revenues (equivalent to \$2,180,234 annualized). There is no staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters included in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Goal: Grow Net Revenues
- Goal: Improve Customer Service

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply to this agreement as the tenant does not employ 21 or more employees working on Port-related work. However, the tenant will be required to certify that

⁴ See Footnote 1.

should living wage obligations become applicable, the tenant shall comply with the Living Wage Regulations.

SUSTAINABILITY

The tenant has not proposed any development for the leased area. If the tenant decides to develop the site in the future, the tenant must comply with the 2000 Sustainability Policy and complete the Sustainability Opportunities Assessment Form.

ENVIRONMENTAL

This action has been determined to be categorically exempt from requirements of the California Environmental Quality Act (CEQA) Guidelines pursuant to Section 15301, Existing Facilities, which exempts the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment or topographical features, involving negligible or no expansion of existing or former use. No changes to the premises or use are proposed.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction project.

OPTIONS

Approve entering into an *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* with Frontier Airlines, Inc ("Frontier"), as outlined above. The Federal Aviation Administration's Grant Assurances, Section 22, Economic Discrimination, provide in part that "[each airport operator] will make the airport available as an airport for public use on reasonable terms and without unjust discrimination to all types, kinds and classes of aeronautical activities, including commercial aeronautical activities offering services to the public at the airport." Frontier is a FAA-certified air carrier and the proposed air service to be offered can be accommodated at OAK.

Approval of this *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* with Frontier is staff's recommended action.

RECOMMENDATION

It is recommended that the Board adopt an ordinance to:

- Approve the terms and conditions, of an *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* between the Port and Frontier Airlines, Inc. ("Frontier"), as outlined above; and,

- Authorize the Executive Director to execute the *Airline Operating Agreement* with Frontier; and the *Annex "A" Space/ Use Permit* with Frontier.

Subject to the Port Attorney's approval as to form and legality of the proposed *Airline Operating Agreement* and its *Annex "A" Space/Use Permit* between the Port and Frontier Airlines, Inc.