



REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.	
COUNCIL MEETING	02/06/2007
APPROVED BY	<i>[Signature]</i>
DEPARTMENT DIRECTOR	<i>[Signature]</i>
CITY MANAGER	<i>[Signature]</i>

February 6, 2007

FROM: RUSSELL C. WIDMAR, AAE
Director of Aviation

SUBJECT: APPROVE STANDARD AIRLINE OPERATIONS AGREEMENT WITH FRONTIER AIRLINES, INC.

KEY RESULT AREA

One Fresno

RECOMMENDATION

That the Director of Aviation be authorized to sign the same form of Airline Operations Agreement with Frontier Airlines as heretofore signed with the other Signatory Airlines operating at the Fresno Yosemite International Airport. The effective date would be January 8, 2007, the date on which Frontier began operating their own aircraft at the Airport and, unless earlier terminated, the agreement would expire contemporaneously with all the other Signatory Airlines' Airline Operations Agreements on June 30, 2010. No exclusive or preferential use space is involved since Frontier is handled by Horizon Airlines in Horizon's leased space. Frontier will pay the City landing fees and other activity fees and charges pursuant to the Master Fee Schedule. There is no impact to the General Fund from this action.

EXECUTIVE SUMMARY

Two years ago, the Airports Department applied to the U.S. Department of Transportation for a grant under the Small Communities Air Service Development Program to subsidize the start up and development of new air service at FYI by a low cost carrier (LCC). Frontier was the targeted LCC. A \$1.1 million grant was received and Frontier began subsidized service with two flights per day to/from Denver in 90 seat Canadair Regional Jets (RJs) on August 31, 2005. The service was actually operated by Horizon Airlines in Horizon aircraft with Frontier markings under a contract between Horizon and Frontier. Horizon also operates their own flights (to Portland and Seattle) at FYI and is Signatory to FYI's standard Airport Use Agreement, and was ultimately responsible for the landing fees and other activity fees and charges associated with the flights they were operating on behalf of Frontier. Frontier did provide insurance naming the City as an additional insured.

The federal subsidy ran out on October 19, 2006, but the flights continued without subsidy. Then, late last year, Frontier and Horizon agreed to a phase out of the system-wide contract under which Horizon had been flying for Frontier. Thus, on January 8, 2007, Frontier operated their first service at FYI with their own cabin crews and aircraft – one daily flight to/from Denver in a mainline Airbus A-319 configured with 120 seats. Horizon's ground personnel are still handling the flight and Frontier is still using Horizon's leased premises. However, Horizon is no longer liable for the flight's landing fees and other activity fees such as gate use charges and security charges, or for the collection of Passenger Facility Charges. A direct agreement between the City and Frontier, including all the standard indemnification and hold harmless provisions, security deposit requirements and more is now appropriate.

KEY OBJECTIVE BALANCE

Frontier is providing comparatively low cost service (Customer Satisfaction), providing employment (Employee Satisfaction) and is paying the City's Master Fee Schedule fees and charges (Financial Management).

BACKGROUND

Frontier is a new airline with no connection to the Frontier Airlines that was dissolved years ago. As with virtually all US carriers, they have been experiencing financial difficulties for the past several years – only recently getting some relief with the drop in oil prices. In the circumstances, it is encouraging that Frontier has elected to continue serving Fresno without subsidy – and with their own, larger mainline aircraft. . In their first year here, Frontier carried 70,471 passengers.

Frontier has just entered a system-wide contract with Republic Airlines, an unaffiliated small jet provider, under which Republic will fly their Embraer 170 jets on behalf of Frontier, in Frontier's markings. We may see these 70+ seat aircraft at Fresno in the future and perhaps will see the resumption of two flights per day.

FISCAL IMPACT

Since the Airports Department operates as a self-supporting enterprise, there would be no impact to the General Fund from the recommended action.