



Staff Report

File #: 23-136

Version: 1

Date: 4/10/2023

Item #: 3.3b.

TO: Mayor and City Council

THROUGH: Keith Stahley, City Manager

FROM: Brian D. Martin, PE, Interim Public Works Director

SUBJECT:

Air Carrier Operating Agreement, Revenue Guarantee Agreement, and Local Matching Funds Agreement

Ward(s): 2

Councilor(s): Nishioka

Neighborhood(s): SEMCA, SESNA

Result Area(s): Safe, Reliable, and Efficient Infrastructure; Strong and Diverse Economy

SUMMARY:

Prior to the launch of commercial air service in 2023, the City must execute an Air Carrier Operating Agreement and Revenue Guarantee Agreement with the airline proposing service, and a local matching funds agreement with Travel Salem, which is providing the required local match to the federally funded revenue guarantee grant for commercial air service.

ISSUE:

Shall City Council authorize the City Manager to execute the Air Carrier Operating and Revenue Guarantee Agreements with the Airline and the Local Matching Funds Agreement with Travel Salem?

RECOMMENDATION:

Authorize the City Manager to execute the Air Carrier Operating and Revenue Guarantee Agreements with the Airline and the Local Matching Funds Agreement with Travel Salem.

FACTS AND FINDINGS:

City Council authorization is required to obligate the City to long-term agreements and to change rates and fees established in the City's Master Fee Schedule.

The Air Carrier Operating Agreement (Attachment 3) is a ten-year agreement with a five-year renewal option period and proposes rates and fees that differ from the City's Master Fee Schedule. The proposed rate and fee changes provide certainty for the air carrier as the program grows. While the proposed rate schedules will reduce potential airport revenues, the expectation is that air carrier growth will provide additional revenue in other areas, primarily through expanded public parking and increased rental car commissions.

The Revenue Guarantee Agreement obligates the City to unconditionally guaranty that the Airline will receive certain minimum revenue for operating flights from Salem. In the event the Airline fails to realize the defined minimum revenue, it will invoice the City on a monthly basis for the shortfall. The City will utilize its federal grant funds and local matching funds to support the Airline and ensure that it is at least revenue-neutral for each flight operated to and from Salem up to a total amount of \$1,200,000, including \$50,000 for marketing.

Travel Salem has agreed to provide the required \$350,000 in local matching funds through local pledges. However, if Travel Salem is unable to convert sufficient local pledges to matching funds, Travel Salem is obligated to use its own eligible funding sources to make the necessary payment to the City. There should be no budget impact to the City from this agreement unless Travel Salem defaults and is unable to provide the matching funds.

In compliance with the Nondisclosure agreement between the City and the Airline, its name has been redacted from the agreements.

BACKGROUND:

On August 3, 2022, the United States Department of Transportation awarded the City of Salem a Small Community Air Service Development (SCASD) grant for \$850,000. The grant was fully executed on October 3, 2022. The required local matching funds totaling \$350,000 are being managed by Travel Salem. The Local Matching Funds Agreement (Attachment 1) with Travel Salem is necessary so that the City can seek the local share of reimbursable expenses associated with the SCASD grant. The Airport's share of the grant match is considered an in-kind contribution of two years waived landing fees, aircraft parking fees, and terminal rental fees, which were authorized by City Council on April 25, 2022.

The Revenue Guarantee Agreement (Attachment 2) with the Airline is an air services agreement with the City of Salem for the Airline to utilize the available SCASD funding and local matching funds to support their proposed air service program to the destinations identified in the agreement and the associated cost to the airline for providing that service.

The Air Carrier Operating Agreement (Attachment 3) is a standard operating agreement between airports and airlines expressing, amongst other things, the amount of space to be leased, the fees to be charged, and operational obligations and expectations of both parties.

John Paskell
Airport Manager

Attachments:

1. Local Matching Funds Agreement
2. Revenue Guarantee Agreement
3. Air Carrier Operating Agreement