



CITY OF SAN ANTONIO
SAN ANTONIO AIRPORT SYSTEM

January 4, 2012

Mr. Joe Hebert
Manager, Financial Analysis and Passenger Facility Charge Branch
Federal Aviation Administration
Office of Airport Planning and Programming
800 Independence Ave., SW.
Washington, DC 20591

RE: Competition Plan Update

Dear Mr. Hebert:

Under the guidelines of FAA Program Guidance Letter (PGL 04-08), please accept this letter and enclosed attachments as the required update to San Antonio International Airport's (SAT) approved Competition Plan based on the newly executed SAT Lease and Use Agreement (Agreement).

Attached is a completed copy of the new Agreement with Southwest Airlines which was executed on November 30, 2011. The Agreement is the culmination of more than three years of negotiations with the airlines and accomplishes SAT's primary goals of providing first class service to the traveling public by keeping costs down while remaining in compliance with City policy for leasing and utilizing city-owned property to generate revenue. A summary of key points of the Agreement are summarized below:

Term of Agreement

The term of the Agreement is November 9, 2010 through September 30, 2015. Airlines have the option of extending the Agreement for an additional two years. The City and airlines have the option of extending the Agreement for an additional three years for a maximum term of 10 years. Please note that per negotiations, the Agreement is retroactive to the opening date of the new Terminal B.

SAT Gates and Terminal Facilities

All SAT passenger gates and terminal facilities will continue to be leased under Exclusive Use, Preferential Use or Common Use terms.

- Exclusive Use Space includes Ticketing, Ticket Offices, Curbside Baggage Check-in, Operations Space, Baggage Service Offices, and VIP Clubs.
- Preferential Use Space includes Holdrooms, Terminal Apron Area, Passenger Loading Bridges (PLBs). Preferential Use provisions were negotiated to maintain the Airport's flexibility in its management of gates and facilities.

- Common Use Areas include Passenger Screening, Baggage Make-up, Consolidated Baggage Handling System (BHS), Baggage Claim and Tug Lanes. Common Use Area Charges are allocated to the airlines with 20% of the amount prorated equally among all airlines leasing terminal building space and 80% based on the ratio of the individual airlines' enplaned passenger to all enplaned passengers.

While SAT underwent a Terminal Replacement coinciding with the start date of the New Agreement, the total number of Gates remained the same. To further demonstrate, the chart below shows the gate lease Agreement status under the old Agreement versus the new Agreement and demonstrates SAT commitment to promoting flexibility and accommodation throughout the terminal facilities.

SAT Preferential Gate Agreement	Old Agreement	New Agreement
Preferential Use Terminal 1/(A)	14	11
Preferential Use Terminal 2/(B)	7	7
City Gates Terminal 1/(A)	2	5*
City Gates Terminal 2/(B)	1	1

*2 of the 5 gates are currently being used by UA, but language in the UA Agreement allows for these two gates to become City Gates upon the re-location of UA to CO at Terminal B in the 1st quarter of 2012.

Gate Use Requirement

New provisions provide for recapture of under-utilized gates and the conversion of preferential gates to common use if minimum utilization requirements are not maintained in order to accommodate the needs of other airline users. Such recapture also provides for a proportionate amount of ticket counter, ticket office and other space.

Rates and Charges

Airline rents and fees recover the maintenance and operating (M&O) costs and the capital costs, including debt service coverage paid by the airlines associated with each cost center, and adjusted for certain credits discussed below. Capital costs are net of costs funded with grants or Passenger Facility Charges.

Adjustments to Certain Airline Costs (as available)

- Prior Period Debt Service Coverage Credit - Debt Service Coverage paid by airlines will be applied as a credit against the next year's rates.
- Application of a "Competitive Credit" for the purpose of keeping airline cost per enplaned passenger competitive with that of other airports similarly situated for the development and retention of air service. The Competitive Credit includes both a fixed portion provided to the airlines and a discretionary portion at the option of the director.
- Application of a one-time credit to the airlines to moderate the cost per enplaned passenger during the initial fiscal year (FY 2011) of \$1.5 million since the Prior Period Debt Service Coverage Credit and the Competitive Credit do not apply going into the initial fiscal year. One-half of the credit will be repaid to the Airport Fund over four years.
- City has discretion to maintain a \$10 differential between Terminal A and Terminal B rates so that those carriers that were assigned to the new Terminal B are not overly penalized. This will be accomplished primarily through the application of the Competitive Credit.

Annual Recalculation of Airline Rents and Fees

- Rents and fees are recalculated annually based on the Airport budget.
- Over/Under estimates of Airport revenue and expenses and estimated units (e.g. landed weight) used to calculate airline rents and fees are reconciled annually to the actual costs of Airport operations. The airlines are billed by the Airport for under estimates of costs and expenses and the City provides credit to the airlines for over estimates of costs and expenses.

Performance Guarantee

Performance Guarantee shall be equal to two months of all rents, fees and charges.

Formation of San Antonio Airline Consortium (SAAC)

The Airlines will form the SAAC, a Texas non-profit corporation to perform certain maintenance and janitorial services. Initial areas include the maintenance of the BHS and PLBs. In addition, in order to provide consistent maintenance throughout the public view areas (including hold rooms, public space, restrooms, common use airline space, etc.) of the terminals, SAAC will take over janitorial responsibilities of those areas with a three-year transition period. Airlines can also assign SAAC the responsibility for non-public view exclusive areas.

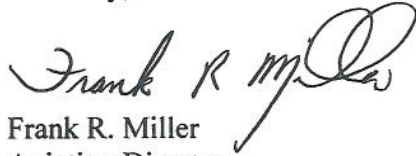
Capital Improvement Coordination with Airlines

Airport agrees to notify airlines of its proposed Capital Improvement Program for the subsequent fiscal year and to meet with the airlines to discuss. Airport and airlines agree that certain capital improvements may be subject to a one-year or two-year deferral if 75% of the airlines representing 75% of the airlines' rents, fees and charges request a deferral of a proposed Capital Improvement. In the event of a Capital Improvement deferral, the Capital Improvement will be deferred for the deferral period following the deferral request. Following the deferral period, the Capital Improvement may be constructed and the capital, operating, and maintenance costs and expenses will be included in airline's rents, fees and charges upon the Capital Improvement's completion.

Overall, the new SAT Use and Lease Agreements maintains the Airport's flexibility to improve operational efficiency and continue to grow by providing a predictable and competitive cost structure for the airlines.

As required by PGL 04-08, this letter and the attached copy of the new SAT Use and Lease Agreement serves as the update to the previously approved SAT Competition Plan. Should you have any questions regarding this submission, please feel free to contact my office.

Sincerely,


Frank R. Miller
Aviation Director