Board of Supervisors Memorandum

April 18, 2017

Release of $100,000 Contingency Fund Reserve as the American Airlines New York City Air Service Revenue Guarantee

Background

In 2016, our community, to ensure direct air service between Tucson and New York City, pledged approximately $3 million as a revenue guarantee to induce American Airlines to begin direct air service between Tucson and New York City.

The Federal Aviation Administration allows promotional incentives to air carriers for new service to increase travel using an airport and/or to promote competition. Other communities have made similar revenue guarantees. Albuquerque, New Mexico, for example, put up $5 million to guarantee a direct flight from Albuquerque to New York City; Windsor, Canada put up $3 million for direct flights from Windsor and Calgary; and St Croix, US Virgin Islands put up $1.5 million for seasonal, direct flights to Atlanta, Georgia.

Our community's guarantee to American Airlines was coordinated by the Tucson Metro Chamber of Commerce and Mr. Bill Assenmacher as a member of the Tucson Airport Authority Board of Directors. The Air Service is agreement is Attachment 1 to this memorandum. The economic benefits of increasing air service between New York City and Tucson are obvious: increased tourism from New York will increase the number of hotel beds occupied, increased restaurant revenues, and increases in other tourism related revenues, which would offset any risk associated with the revenue guarantee.

For this reason, I earmarked $100,000 in this year's Contingency Reserve to be used for this purpose, if necessary.

American Airlines has indicated they are below their target utilization, and they will now have to starting drawing on the revenue guarantee. Attachment 2 is a memorandum from the TAA that discusses the status of the flights and indicates American Airlines has incurred a $455,279 shortfall as of October 2016.

Recommendation

I recommend the Board of Supervisors approve the release of $100,000 from the Contingency Reserve for Pima County's portion of the American Airlines guarantee.

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/mjk – April 12, 2017

Attachments

ATTACHMENT 1

AIR SERVICE AGREEMENT

This Air Service Agreement (this "Agreement") is made and entered into as of May 18, 2016, (the "Effective Date") by and between American Airlines Inc., a Delaware corporation with its principal offices at 4333 Amon Carter Boulevard, MD 5544, Fort Worth, Texas 76155, ("American"), and Tucson Metro Chamber, 465 West St. Mary's Road, Tucson, Arizona 85701 ("Guarantor").

1. Term.

This Agreement shall commence upon the Effective Date and, unless sooner terminated in the manner provided for herein, shall remain in full force and effect until December 5, 2018 (the "Term").

2. Air Service.

American shall provide regularly scheduled passenger "Air Service," as such term is defined herein, between John F. Kennedy International Airport ("JFK) and Tucson International Airport ("TUS") in both directions. Air Service shall consist of one-way flights between JFK and TUS performed by American(each, a "Air Service Flight"), commencing on October 6, 2016 through October 5, 2018 (the "Air Service Period") in accordance with the schedule attached hereto as Schedule 2 and incorporated herein by reference.

American agrees to schedule an aircraft to perform the Air Service. American reserves the right to make all operational decisions regarding the Air Service, including, but not limited to, aircraft type and configuration, operating carrier, timing of arrival/departure, frequency of service (schedule flexibility), and continued operation of the Air Service.

3. Minimum Revenue Requirement.

   a. The "Flight Charge" for each Air Service Flight shall be specified in Schedule 2.

   b. The "Settlement Period" shall be each calendar month during the Air Service Period, with net cumulative billing for the three (3) preceding Settlement Periods, done on a quarterly basis. Settlement Periods inside a quarter will offset each other.

   c. The "Minimum Revenue Requirement" shall mean the Flight Charge as set forth in Schedule 2 for each Air Service Flight multiplied by the actual number of Air Service Flights between JFK and TUS operated by American during each Settlement Period.

   d. The "Billing Period" shall be quarterly and include the net cumulative billing for the Settlement Periods included in such Billing Period.

   e. American and Guarantor agree that the Total Revenue (as defined in Section 4.d. below) for each Settlement Period must equal or exceed the Minimum Revenue Requirement.

4. Revenue Calculation.

   a. American and Guarantor agree that notwithstanding, and in addition to, the provisions of Section 8.a hereof, in the event of certain changes in the average price per gallon that American pays for jet fuel, American will adjust the amount payable

as provided in Schedule 1 hereto.

b. For purposes of this Agreement, "Passenger Ticket Revenue" for each Air Service Flight shall be the total gross amount paid by passengers in connection with the applicable Air Service Flight, less applicable taxes, and shall be rate-prorated by segment. A rate-prorate is used to divide total Passenger Ticket Revenue paid per Air Service Flight among the actual number of segments flown by an Air Service Passenger according to the ratio of each segment's local fare to the sum of all the local fares applicable to the passenger's actual itinerary.

c. For purposes of this Agreement, "Partner Miles" shall be the marketing component of revenue received from third parties related to the purchase of AAdvantage® miles.

d. For purposes of this Agreement, "Total Revenue" shall be the sum of the Passenger Ticket Revenue, including Partner Mile Revenue, Baggage Revenue, Cargo Revenue, and Other Ancillary Revenue for all of the Air Service Flights operated by American and/or an American Airline Affiliate during the Settlement Period.

e. For purposes of this Agreement, American's Airline Performance Analysis System ("APAS") shall be the sole source of information for calculating Passenger Ticket Revenue, Partner Miles Revenue, Excess Baggage Revenue, Cargo Revenue and Other On-Board Ancillary Revenue. Additionally, for purposes of this Agreement, APAS shall also be the sole source of information for Fuel Expenses of all Air Service Flights during each Settlement Period. Notwithstanding the foregoing, Guarantor shall have the right, upon providing at least five (5) business days' prior written notice to American, to conduct, at Guarantors' sole expense, an audit, within sixty (60) days, following the close of a Settlement Period. Such audit may examine the information and documents used to calculate Passenger Ticket Revenue, Partner Miles Revenue, Excess Baggage Revenue, Cargo Revenue and Other On-Board Ancillary Revenue and Fuel Expenses received or incurred by American for Air Service Flights associated with this Agreement. Any such audit must be reasonable in all respects, and must be performed during regular business hours and without affecting American's regular business operations.

5. Revenue Reconciliation.

a. American will reconcile the Total Revenue during each Settlement Period against the Minimum Revenue Requirement for such Settlement Period no later than sixty (60) days following the end of the Settlement Period.

b. If the Total Revenue is more than the Minimum Revenue Requirement for such Settlement Period, a "Revenue Excess" shall be deemed to have occurred in the amount of the actual difference between the Total Revenue and the Minimum Revenue Requirement. In such event, American will retain the Revenue Excess. In any event, such Revenue Excess may not be applied to meet the Minimum Revenue Requirement of the following Settlement Period.

If the Total Revenue is less than the Minimum Revenue Requirement for such Settlement Period, a "Revenue Shortfall" shall be deemed to have occurred in the

amount of the actual difference between the Total Revenue and the Minimum Revenue Requirement. In such event, American will invoice Guarantor for the cumulative Revenue Shortfall, if any, for each Billing Period within sixty (60) days, following the close of each Billing Period. Guarantor's maximum cumulative liability for Revenue Shortfalls for Air Service for the Air Service Period will not exceed US$2,982,600 (the "Guaranteed Revenue Pool").

6. Monthly Reconciliation Statements of Revenue.

American shall provide a reconciliation statement to Guarantor by no later than the last business day of the calendar month following the end of each Settlement Period through the date of expiration or termination of this Agreement. Such reconciliation statement shall include American's calculation of the Revenue Excess or Revenue Shortfall incurred during such Settlement Period, if any.

7. Quarterly Payments of Revenue Shortfalls.

American shall provide an invoice to Guarantor by no later than sixty (60) days, following the close of each Billing Period. Such invoice shall include American's calculation and balance of the cumulative Revenue Shortfalls incurred for each Billing Period during the preceding three (3) Settlement Periods, if any. Payment shall be due and Guarantor shall pay such invoice to American by no later than thirty (30) business days after receipt of such invoice. All payments hereunder shall be made no later than their respective due dates by check, by wire transfer pursuant to wiring instructions given by American or by other means of payment agreed to in writing by American. Guarantor agrees to pay interest on any overdue payment (including without limitation any Revenue Shortfall) from the date such payment is due hereunder until the date such payment is received by American at the lesser of the following (i): the highest rate permitted by applicable law or (ii) an annual rate of 12%.

8. Termination and Default.

This Agreement shall terminate automatically prior to the expiration of the Air Service Period and without penalty or further liability hereunder of Guarantor as of the date that Guarantor has expended, exhausted the Guaranteed Revenue Pool. If not sooner terminated as provided above, this Agreement may be sooner terminated by the party specified below (after having given any applicable notice specified below) upon the happening of any of the following events:

a. By American, if (i) American is unable to obtain the governmental or other approvals necessary to commence the Air Service or the service on a particular Air Service Flight, or if American determines in its sole discretion that the operating facilities at TUS are inadequate for American to commence the Air Service at TUS; (ii) Guarantor fails to make any payment when due and does not make such payment within five (5) days after written notice or demand thereof; or (iii) any of the following events occur: (A) a forced or voluntary grounding of one or more of American's aircraft types (or the aircraft type(s) of the operating carrier determined by American to operate the Air Service as provided in Schedule 2 hereof in the event American does not operate such aircraft type(s) itself) or (B) a greater than 35% increase in the average price per gallon that American pays for jet fuel as compared to the average price per gallon that American paid as of the Effective Date.

b. By either party, if the other party is in breach or default under any provision of this Agreement and such other party does not cure such breach or default within five (5) days after the non-breaching or non-defaulting party gives written notice to the other party specifying the nature of the breach or default.

c. By either party, with or without cause or penalty upon not less than thirty (30) days' prior written notice to the other party. The effective date of termination shall be as stated in such written notice of termination but not earlier than thirty (30) days following such written notice.

9. Remedies Upon Termination.

a. A termination pursuant to Section 8.a or 8.b shall not limit the non-breaching or non-defaulting party's right to pursue or enforce any of its rights under this Agreement or otherwise.

b. Any termination or expiration of this Agreement shall not affect Guarantor's obligation to pay American all past due amounts owing to American as of the effective date of such expiration or termination.

c. In the event of any termination or expiration of this Agreement for any reason, Guarantor shall pay all past due amounts owed to American as of the effective date of expiration or termination, in accordance with the provisions of this Agreement, within fifteen (15) business days after receipt of an invoice from American.

10. Confidential Information.

a. Each party (the "Receiving Party") agrees to hold in strict confidence all confidential and proprietary information, either designated by the party disclosing such information to the other party (the "Disclosing Party") as such or under reasonable circumstances to be considered as such, whether in written, oral or other form, which it received from the Disclosing Party prior to, or in the course of, this Agreement (collectively, "Confidential Information"). Each party further agrees to use the Confidential Information solely to perform or to exercise its rights under this Agreement, and at a minimum to take all measures necessary to protect against the disclosure or use of the Confidential Information as it takes to protect its own proprietary or confidential information (but in any case no less than reasonable measures). Confidential Information includes, without limitation, (i) the terms of this Agreement, and (ii) flight and accommodations booking information related to the Air Service.

b. Each party agrees that it will not disclose any Confidential Information to any third party without the prior written consent of the Disclosing Party, except (i) when required to do so by law or by a court of competent jurisdiction, subject to Section 10.c below; (ii) to the respective officers, members of the Board of Directors, attorneys, accountants or lending institutions of either party (and in the case of Guarantor, any donor of or contributor to the Guaranteed Revenue Pool) which have been informed of and will be required to maintain the confidentiality of such information; or (iii) unless such provisions are publicly known through no disclosure that is prohibited hereunder.

c. In addition, the Receiving Party may disclose the Confidential Information in response to law, regulation or a valid court order or other governmental action,

provided that (i) the Disclosing Party is notified in writing prior to disclosure of the information, and (ii) the Receiving Party assists the Disclosing Party, at the Disclosing Party's expense, in any attempt by the Disclosing Party to limit or prevent the disclosure of the Confidential Information

11. Promotional Materials.

Guarantor shall submit to American for review and approval, prior to publication or use, the portion of any and all artwork, scripts, copy, advertising, promotional materials, direct mail, press releases, newsletters or other communications or any other publicity published or distributed by Guarantor (or at its direction or authorization) that specifically references this Agreement, the Air Service, American (or any of American's Affiliates), or uses any trademark, service mark, logo or trade name of American or any of its Affiliates ("American Marks") (collectively, the "Promotional Materials"). American may provide Guarantor with limited access to the American Airlines brand center website (https://brand.aa.com) and a limited license to obtain and use digital renditions of the American Marks that conform to American's corporate graphics standards. Guarantor agrees that it will not (a) use or display any American Marks that it has not obtained from American or from the American Airlines brand center website; (b) alter the American Marks in any way; or (c) display the American Marks without the appropriate proprietary rights notices. American shall have the right, at its sole discretion, to modify the graphics standards and disclaimers from time to time. All promotional or informational material distributed or electronically transmitted by Guarantor using the American Marks will require the tag line listing the marks and stating "are trademarks of American Airlines, Inc.". American agrees to respond to Guarantor within five (5) business days after receipt of the Promotional Materials with written approval or written request for changes. Guarantor further agrees that no changes will be made to any of the Promotional Materials after approval by American unless such changes are first approved by American in writing. For the purpose of this Agreement, "Affiliate" shall mean, with respect to either party, any person directly or indirectly controlling, controlled by, or under common control with, such party.

12. Fares.

American agrees to establish and modify, as needed, the air fares for the Air Service and agrees to provide yield and inventory management services with respect thereto. Guarantor acknowledges that American has agreed to establish and modify these air fares and to provide yield and inventory management services as an accommodation to Guarantor and that American hereby disclaims all liability for, and Guarantor hereby waives all claims against American which may arise out of or in connection with, the establishment or modification of such air fares or the yield and revenue management services provided hereunder. American agrees to advise Guarantor regarding pricing for such air fares; provided, however, that American shall at all times have the unconditional right in its sole discretion to determine air fares during the Air Service Period.

13. Governing Law.

This Agreement shall be construed in accordance with, and shall be governed by, the laws of the State of Texas without regard to any conflict of law rules.

14. Jurisdiction/Dispute Resolution.

Each party irrevocably submits to the nonexclusive jurisdiction of the United States District

Court for the Northern District of Texas and of any State Court sitting in Texas, for purposes of legal proceedings arising out of this Agreement or any transactions contemplated in this Agreement. Each party, to the fullest extent it may effectively do so under substantive governing law applicable to this Agreement, also irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court and any objection that it may have as to venue or inconvenient forum in respect of claims or actions brought in such court and any right of application or appeal to any court (in the U.S. or in any other jurisdiction).

15. Force Majeure.

Except as otherwise expressly provided in this Agreement, neither party shall be liable for performance or any payments hereunder to the extent such performance is prevented or delayed as a result of acts of God, severe weather, natural disaster, earthquake, fire, war, military action, terrorist action, labor disputes, or any court order or action of any governmental, administrative or judicial entity or by any other reason or circumstance, similar or dissimilar, beyond the reasonable control of such party; provided, however, such party shall (a) provide the other party with prompt written notice thereof, (b) use its best reasonable efforts to avoid or remove such causes of non-performance, and (c) continue performance to the extent such causes are removed or avoided.

16. Indemnification.

a. American agrees to indemnify, defend and hold harmless Guarantor and its officers, directors, employees, agents and Affiliates (the "Guarantor Indemnified Parties") from and against any and all third party liabilities, damages, losses, claims, suits, liens, demands, actions, causes of action, judgments, fines, penalties and expenses (including without limitation reasonable attorneys' fees) of any nature whatsoever (collectively, "Claims") arising out of or in connection with, or related to (i) the willful misconduct or negligent acts, errors or omissions of American, its subcontractors, its Affiliates or any person directly or indirectly employed by American, or any of them, while engaged in any activity associated with or related to American's performance under this Agreement; (ii) American's products or services supplied or performed in connection with this Agreement or otherwise; and (iii) American's breach of its obligations under this Agreement.

b. Guarantor agrees to indemnify, defend and hold harmless American and its officers, directors, employees, agents and Affiliates (the "American Indemnified Parties") from and against any and all Claims arising out of or in connection with, or related to (i) the willful misconduct or negligent acts, errors or omissions of Guarantor, its subcontractors, its Affiliates or any person directly or indirectly employed by Guarantor, or any of them, while engaged in any activity associated with or related to Guarantors' performance under this Agreement; and (ii) Guarantors' breach of its obligations under this Agreement.

c. The rights and obligations of the parties under this Section 16 shall survive any termination or expiration of this Agreement.

17. Waiver of Consequential Damages.

Except with respect to each party's indemnification obligations hereunder, neither party shall be liable to the other for any special, incidental or consequential damages arising out of this

Agreement, even if such party had been advised of the possibility of such damages.

18. Insurance.

a. American. At all times during the term of this Agreement, American shall carry and maintain, at its sole cost and expense, airline liability insurance with aggregate limits of at least $25,000,000 USD for personal injury (including without limitation bodily injury and death) and property damage. If so requested by Guarantor, American will furnish Guarantor within thirty (30) days of such request an insurance certificate which: (i) indicates that the insurer has accepted and insured Section 16.a of this Agreement; (ii) includes the insurer's commitment to give Guarantor not less than 30 days' prior written notice in the event of cancellation or material adverse change in coverage; (iii) indicates that such insurance shall not be invalidated by any action or inaction of American and shall insure Guarantor regardless of any breach or violation of any warranty, declaration, or condition contained in such policies by American; (iv) shall waive any right of subrogation, set-off, or counterclaim against Guarantor; (v) shall name the Guarantor Indemnified Parties hereunder as additional insureds; and (vi) indicates that such coverage is primary without right of contribution from any insurance carried by Guarantor.

b. Guarantor. At all times during the term of this Agreement, Guarantor shall carry and maintain, at its sole cost and expense, commercial general liability insurance with aggregate limits of at least $10,000,000 USD for personal injury (including without limitation bodily injury and death) and property damage. If so requested by American, Guarantor will furnish American within thirty (30) days of such request an insurance certificate which: (i) indicates that the insurer has accepted and insured Section 16.b of this Agreement; (ii) includes the insurer's commitment to give American not less than 30 days' prior written notice in the event of cancellation or material adverse change in coverage; (iii) indicates that such insurance shall not be invalidated by any action or inaction of Guarantor and shall insure American regardless of any breach or violation of any warranty, declaration, or condition contained in such policies by Guarantor; (iv) shall waive any right of subrogation, set-off, or counterclaim against American; (v) shall name the American Indemnified Parties hereunder as additional insureds; and (vi) indicates that such coverage is primary without right of contribution from any insurance carried by American.

19. Sovereign Immunity.

To the extent that either party or any of its property is or becomes entitled at any time to any immunity on the grounds of sovereignty or otherwise, from any legal action, suit, arbitration proceeding or other proceeding, from set-off or counterclaim, from the jurisdiction of any court of competent jurisdiction, from service of process, from attachment prior to judgment or after judgment, from attachment in aid of execution or levy or execution resulting from a decree or judgment, from judgment or from jurisdiction, or such party's liability is limited pursuant thereto, that party, to the extent permitted by applicable law, for itself and its property does hereby irrevocably and unconditionally waive all rights to, and agrees not to plead or claim any such immunity with respect to its obligations, liabilities or any other matter arising out of or in connection with this Agreement or its subject matter in an action brought by the other party to enforce or interpret this Agreement. This waiver of immunity shall not inure to the benefit of a third party who is not a signatory to this Agreement.

The foregoing waiver and agreement is not subject to withdrawal in any jurisdiction, unless prohibited by applicable law.

20. Assignment.

Neither party may assign this Agreement or any interest herein without obtaining the prior written consent of the other party, except that American may assign or delegate this Agreement and the rights and obligations created hereunder to any wholly owned subsidiary of American Airlines Group Inc. without the consent of Guarantor.

21. Waivers and Modifications.

This Agreement embodies the entire agreement and understanding of the parties and, as of its effective date, terminates and supersedes all prior or contemporaneous agreements and understandings, whether written or oral, between the parties covering the subject matter hereof. The provisions of this Agreement shall govern all services to be provided hereunder by the parties, and no addition, amendment, waiver, or modification of (or execution of any document contrary to) these provisions shall be effective unless signed jointly by a duly authorized representative of both American and Guarantor.

22. Severability.

In the event that any one or more of the provisions of this Agreement shall be determined to be invalid, unenforceable or illegal, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal and unenforceable provision had never been contained herein with the remainder of this Agreement being enforced to the fullest extent possible.

23. Relationship of the Parties.

For the purposes of this Agreement each of the parties is an independent contractor, and neither party shall be deemed to be the agent, partner, employee or joint venturer of the other party.

24. Notices.

Any notice required to be given by either party to the other pursuant to this Agreement shall be in writing and shall be deemed to have been properly given if delivered in person, transmitted by facsimile, sent by overnight delivery or sent by registered or certified mail, return receipt requested, addressed to the other party at the following address, and shall be deemed to have been given on the day so delivered, transmitted, sent or mailed:

To American:

American Airlines, Inc.
Attn: Charles J. Schubert, Vice President - Network and Schedule Planning
4333 Amon Carter Boulevard, MD 5544
Fort Worth, Texas 76155
Fax No.: (817) 931-6670

To Guarantor:

Tucson Metro Chamber
Attn: Michael Varney, President and CEO

465 West St. Mary's Road
Tucson, Arizona 85701
Phone: (520) 792-1212
Fax: (520) 882-5704

Either party will have the right to change their representative and address for notice to any other location by giving at least five (5) business days' prior written notice to the other party in the manner set forth above.

25. Headings/Construction.

The headings contained herein are for convenience of reference and are not intended to define or limit the scope of any provision of this Agreement.

26. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties, their successors and permitted assigns and there is no intent to benefit any third parties.

27. Further Assurances.

Each of the parties shall do and perform, at such party's expense, such further acts and execute and deliver such further instruments and documents as may be required by applicable law or as may be reasonably requested by the other party to effectuate the purposes of this Agreement.

28. Exhibits & Schedules.

The Exhibits and Schedules to this Agreement are incorporated into this Agreement and form a part hereof for all intents and purposes.

29. No Waiver.

No waiver of a breach of any provision of this Agreement by either party shall constitute a waiver of any subsequent breach of the same or any other provision hereof, and no waiver shall be effective unless made in writing and signed by a duly authorized representative of the waiving party. Except as expressly set forth herein, no delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

30. No Remedy Exclusive.

Except as expressly set forth herein, no remedy herein conferred upon or reserved to a party herein is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and in addition to every other remedy given under this Agreement or now or hereafter existing at law, in equity or by statute. In order to entitle a party to exercise any remedy reserved to it in this Agreement, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

31. Expenses.

Each party to this Agreement agrees to be responsible for its own costs, expenses and charges (including, without limitation, legal fees, advisory fees and accounting fees) in connection with the preparation of this Agreement and the transactions contemplated

hereunder.

32. **No Discrimination.**

Guarantor Shall: (i) comply with 48 C.F.R. 52.219-8, Utilization of Small Business Concerns (Oct 2014) and include this clause in lower-tier subcontracts if the Products or Services offer further subcontracting opportunities; (ii) comply with 48 C.F.R. 52.219-9, Small Business Subcontracting Plan (Oct 2014) and include this clause in lower-tier subcontracts if Guarantor is a large business, Guarantor is not providing a commercial item (as defined in 48 C.F.R. 2.101), and the Products, Services, or lower-tier subcontract, as applicable, exceed $650,000 (or $1.5 million for construction); and (iii) comply with all reasonable requests of American for documentation and other information to substantiate Guarantor's compliance with these clauses.

33. Counterparts.

This Agreement may be executed (by fax or otherwise) in counterparts, each of which shall be deemed an original, and which together shall constitute one instrument.

Tucson Metro Chamber		**American Airlines, Inc.**	
By:	_____	By:	_____
Name:	Michael Varney	Name:	Charles J. Schubert
Title:	President and CEO	Title:	Vice President, Network and Schedule Planning
Date:	_____	Date:	_____

SCHEDULE 1
TO AIR SERVICE AGREEMENT
BETWEEN AMERICAN AIRLINES, INC. AND
GUARANTOR FUEL
ADJUSTMENTS
AIR SERVICE BETWEEN JFK AND TUS

1. If the average price per gallon that American pays for jet fuel during any given month during the Term ("Average Fuel Price") changes as compared to an average price per gallon of US$1.60 ("Initial Average Fuel Price"), the sum of Flight Charges for Air Service Flights during such month shall be adjusted as follows (each monthly adjustment a "Fuel Adjustment"):

   a. If the Average Fuel Price increases to US$1.61 (the "Increase Trigger Price") or above for any month during the Term, the sum of all Flight Charges for Air Service Flights during such month shall be increased by an amount equal to the product of the difference between the Average Fuel Price for such month and the Increase Trigger Price and the total number of gallons of jet fuel consumed on the Air Service Flights during such month, as determined by American.

   b. If the Average Fuel Price decreases to US$1.59 (the "Decrease Trigger Price") or below for any month during the Term, the sum of all Flight Charges for Air Service Flights during such month shall be decreased by an amount equal to the product of the difference between the Average Fuel Price for such month and the Decrease Trigger Price and the total number of gallons of jet fuel consumed on the Air Service Flights during such month, as determined by American.

2. All Fuel Adjustments will be included in the respective reconciliation statements and quarterly invoices for the respective Settlement Periods or the final report, as applicable, as provided in Section 5.a of the Agreement.

3. Examples:

   (a) If the Average Fuel Price for December is US$1.70 and American consumed 100,000 gallons of jet fuel on all Air Service Flights during December, the Fuel Adjustment for December will be an increase of the sum of all Flight Charges during December of:

   ($1.70 - $1.60) x 100,000 = $10,000

   (b) If the Average Fuel Price during December is US$1.50 and American consumed 100,000 gallons of jet fuel on all Air Service Flights during December, the Fuel Adjustment for December will be a decrease of the sum of all Flight Charges for December of:

   ($1.50 - $1.60) x 100,000 = ($10,000)

SCHEDULE 2
TO AIR SERVICE AGREEMENT
BETWEEN AMERICAN AIRLINES, INC. AND GUARANTOR FOR
AIR SERVICE BETWEEN JFK AND TUS

PROPOSED FLIGHT SCHEDULE*

October 6, 2016 – October 5, 2018

Origin	Destination	Days of Operation	Flight Times*
JFK	TUS	Daily	07:57 – 16:00
TUS	JFK	Daily	17:00 – 19:29

Equipment: Airbus A319**

Present Configuration: 128 seats**

One Way Flight Charge: Thirty-One Thousand Eight Hundred Ninety ($31,890) per Air Service Flight

Equipment: Boeing 737-800**

Present Configuration: 160 seats**

One Way Flight Charge: Thirty-Nine Thousand Eight Hundred Fifteen ($39,815) per Air Service Flight

*Exact operating times are subject to change from time to time by American at its sole discretion.

**Subject to Section 2.

ATTACHMENT 2

TUCSON
AIRPORT AUTHORITY
TUCSON INTERNATIONAL AIRPORT • RYAN AIRFIELD

12/22/16

MEMORANDUM

TO: Bill Assenmacher, Chair, Air Service Task Force, Tucson Metro Chamber

FROM: David Hatfield, Senior Director, Business Development and Marketing

RE: TUS-JFK

The introduction of American Airlines' nonstop service between Tucson and New York JFK airport in October is already showing a positive impact at Tucson International Airport that benefits the entire region. In October, 5,889 passengers took the flight, which equates to 37% of the total passenger growth the airport experienced that month.

We now have our first actual numbers from American as to how the TUS-JFK flights performed during October. The 5,889 passengers in October filled 72.2% of available seats. That was below American's system-wide average of 82-83%.

As with most new ventures it is important to recognize that it takes time to build awareness and customers. American has priced fares on the flight to be competitive with its other transcontinental flights between JFK airport and its other Western U.S. destinations; Las Vegas, Los Angeles, Phoenix, San Diego, San Francisco and Seattle.

Some investors may have heard of occasions when people found extraordinarily low fares on the TUS-JFK flight. Most of that can be attributed to the fact that there were days when the number of low-priced tickets sold more slowly and were still available after they normally would have been sold out. These are bargain airfares that will be more difficult to come by as passenger awareness grows.

We don't have November numbers yet from American but the preliminary indication is that the month started off soft and ended strong, with probably three or four flights sold out. This is consistent with air travel in general throughout the U.S., with a soft period before the Thanksgiving holiday rush. At this point American anticipates the average load factor for the month will be down slightly from October but the average airfare will be up, possibly by as much as 9%.

By most indications, the TUS-JFK flight is on a typical initial trajectory that will continue to grow over time. This is not a case where there was pent-up demand could have spurred spontaneous purchases. Passengers usually take more time planning a trip that involves a transcontinental flight.

Data continues to show demand for the flight. It's now a matter of continuing to grow awareness that there is now a better way to travel between Tucson and New York. We also need to continue to pursue efforts with businesses to have them consciously think about using the JFK flight when possible.

TUCSON
AIRPORT AUTHORITY
TUCSON INTERNATIONAL AIRPORT • RYAN AIRFIELD

12/22/16

For December, bookings for the TUS-JFK flights are pacing about 6% above the average for American Airlines flights from JFK to all destinations and for January they are pacing about 9% above the average.

Overall passenger growth at Tucson International Airport is definitely on an upswing with October and November setting the highest year-over-year increases so far of 2016, at 5.7% and 8.5% respectively. These are positive indicators as Tucson goes into the important winter tourism season and gives us reason to be optimistic that your investors are on the right track investing in this flight with the ultimate goal of making it sustainable.

American Airlines

JFK / Tucson, AZ (TUS)

Minimum Revenue Guarantee - Monthly Performance Summary

October 2016 - Estimate

Traffic Statistics

	Seats	Psgrs	LF
JFK-TUS	4,160	3,074	73.9%
TUS-JFK	4,000	2,815	70.4%
RT	8,160	5,889	72.2%

Directional Revenue Breakdown

Onboard Segment Revenue by Direction	Revenue
JFK-TUS	$818,437
TUS-JFK	$740,203
Round Trip Revenue	$1,558,640

Directional Cost Breakdown - A319

One Way Flight Charge / Operation	$31,890
JFK-TUS One Way Operations	0
JFK-TUS Revenue Requirement	$0

Directional Cost Breakdown - B738

One Way Flight Charge / Operation	$39,815
JFK-TUS One Way Operations	51
JFK-TUS Revenue Requirement	$2,030,565

Fuel Adjustment

Contracted Rate	$1.60
Average Price	$1.52
Difference	$0.08
Fuel Gallons Burned	204,560
Fuel Adjustment	$16,646

October 2016 - MRG Summary

Total Onboard Segment Revenue		$1,558,640
Minus: Monthly Flight Charge	-	$2,030,565
Subtotal		($471,925)
Fuel Adjustment	+	$16,646
Surplus / (Shortfall)		**($455,279)**

This is not an invoice.