



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** William F. Sherry, A.A.E.

**SUBJECT:** AIRLINE AIR SERVICE  
INCENTIVE PROGRAM

**DATE:** May 26, 2006

Approved

Date

5/31/06

**COUNCIL DISTRICT:** Citywide

## RECOMMENDATION

Adoption of a resolution establishing an airline air service promotional fee-waiver incentive program to support the development of new air service at Norman Y. Mineta San José International Airport.

CEQA: Resolution Nos. 67380 and 71451, PP 06-083

## OUTCOME

The proposed airline incentive program can provide the City with an effective tool to help secure new air service. It will help reduce an airline's financial risk during the important start up period. Further, adoption of the program will demonstrate San José's commitment to partnering with its airlines.

## BACKGROUND

Norman Y. Mineta San José International Airport is a strategic asset in achieving the City's economic development goals. Air service provides an essential link to support the economy and to sustain the region's quality of life by moving people and products between San José and destinations globally. Access to domestic and international markets is a priority of the region's businesses. As noted during the Getting Families Back to Work public meetings and from feedback received through the Airport's outreach programs, community and business leaders have expressed a strong desire to improve access from San José to key domestic and international cities.

During the last five years, San José has experienced a significant reduction in the availability of domestic and international air service. The well-documented struggles of the aviation industry,

including increased fuel costs, along with the slow economic recovery of our region, have made securing new service a challenge.

With the airline industry in a period of rapid change and uncertainty, airline route planning decisions are focused on establishing and maintaining route profitability. An airline's decision to serve a new market represents a significant investment and financial risk to the carrier.

## **ANALYSIS**

The proposed airline incentive program for Mineta San José International Airport will help reduce an airline's financial risk during the important start up period. Further, the proposed airline incentive program will demonstrate San José's commitment to partnering with its airlines. When faced with a choice on where to place additional air service, airline incentive programs can be a determining factor in the airline decision-making process. Other market factors that influence an airline's decision to invest new air service in a community include route feasibility forecasts, aircraft availability, market competition, airport costs, and the level of support an airline will receive from the community. Airline route planners give particular attention to those communities that effectively partner with carriers and that maintain a business-friendly environment at their airports.

Under the proposed airline air service incentive program, airlines providing new non-stop service between San José and a qualifying domestic or international city will receive credits against certain airport fees and charges for a period (the promotional period) of 12 months from the commencement of the service, so long as the new service is not off-set by a service reduction from that carrier in an existing non-stop market. The qualifying service must be continuously operated during the 12-month period. All airlines – including both new and incumbent carriers – would be eligible to participate in the proposed program. To receive the fee waiver credits, the airline must agree to begin new non-stop service between San José and a qualifying domestic or international city. During the 12-month promotional period, incentive credit would be offered to all carriers who express interest in operating new non-stop service between San José and the qualifying city's airport.

The program objective is to obtain convenient non-stop access to key domestic and international destinations. International air service is a catalyst in Silicon Valley's ability to compete globally. The Bay Area Economic Forum recently noted that the region's economy has grown more dependent upon international trade. Nearly half of the region's exports go to Asia (46%), 24 percent go to Canada and Mexico, 23 percent to Europe, and 7 percent to the rest of the world.

Under the proposed program, the Director of Aviation will be responsible for establishing and managing a list of qualifying cities. The list of qualifying cities may change over time; depending on market conditions; passenger data, market research, route feasibility studies, and

community feedback will be utilized to determine the eligible markets. The San José/Silicon Valley Chamber of Commerce and the San José Convention and Visitors Bureau will play a strategic role to help monitor air service needs and to make air service recommendations to the Director of Aviation. The Director of Aviation will make periodic reports to Council on the status of the Airport's air service incentive program and the City's efforts to secure additional air service.

Airlines that start new service from San José to qualifying domestic and international destinations will receive incentive credits covering all Airport fees and charges that would otherwise be paid by the airline for the qualifying new service during the first year of operation. Air service that is operated within the Airport Curfew hours of 11:30 p.m. to 6:30 a.m. will not be eligible to receive incentive credit. Fees and charges eligible to receive credit will include landing fees, facility rental charges, gate use fees, aircraft parking charges, and airport-imposed international passenger processing fees (excluding Passenger Facility Charges). Fees and charges do vary according to the business needs of each carrier. However, the Airport receives approximately \$175,000 annually for a typical domestic flight that is operated on a daily basis. For each daily transoceanic flight, the Airport typically receives an estimated \$717,000 annually in fees and charges.

Introducing new air service to a community has an immediate positive affect on the community. Hotels, restaurants, ground transportation providers, rental car companies and area businesses all receive economic benefit from new air service. Industry estimates have concluded that, typically for each new transoceanic air service route that is introduced to a community, hundreds of millions of dollars are contributed to the local economy annually. .

It is important to note that, although the proposed program will waive Airport fees and charges for qualifying new non-stop services during the first year of the new service, the new air service will stimulate additional revenues from passengers who use the service, including food and beverage and retail sales, parking and ground transportation fees, and passenger facility charges. Service credit will not be extended to an airline that within the 12-month promotional period eliminates non-stop service in another San José city pair.

Because of the competitive nature of developing air service, it has become a common practice for communities and airports in the United States to offer incentive programs to support air service development. Federal Aviation Administration policy allows airports to establish air service incentive programs involving waivers or discounting of fees and charges imposed on airlines in exchange for new service, as long as the incentives are limited to a defined promotional period and the incentives are available on a non-discriminatory basis to all airlines that are willing to provide the same type and level of new service consistent with the incentive program. This program is designed to meet these Federal requirements and is non-discriminatory in nature.

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The proposed airline passenger incentive program is one component of a larger effort to support airlines in San José. Airport staff is currently working with the Office of Economic Development, the San José Convention and Visitors Bureau, and the San José Silicon Valley Chamber of Commerce to develop joint marketing programs that provide marketing and promotional support to carriers who introduce new air service at Norman Y. Mineta San José International Airport.

### **ALTERNATIVES**

The City Council may elect to not approve an air service incentive program.

### **PUBLIC OUTREACH**

The Airport Commission endorsed this program at its May 2006 meeting. The San José/Silicon Valley Chamber of Commerce and the San José Convention and Visitors Bureau both support this proposed air service development program.

### **COORDINATION**

The City Attorney's Office has collaborated in the review of the proposed incentive program and this memorandum.

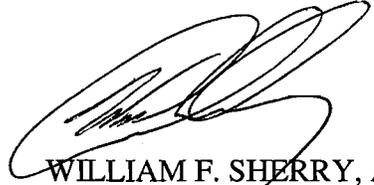
### **COST IMPLICATIONS**

The proposed airline air service incentive program credits will result in waivers of airline fees and charges for qualifying new air service. However, the increased revenue from parking, concessions and other Airport services that will directly result from the increased air service should offset any waived airline fees and charges for qualifying new service. Because staff projects that the additional revenue resulting from the increased air service will offset any waived fees and charges, no increases in airline rates and charges will be required to offset any airline fees and charges that are waived.

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**CEQA**

Resolution Nos. 67380 and 71451, PP 06-083

A handwritten signature in black ink, appearing to read 'W. Sherry', is written over the printed name and title.

WILLIAM F. SHERRY, A.A.E.  
Director of Aviation, Airport

For questions please contact William Sherry, Director of Aviation, at 501-7670.