



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

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

**SUBJECT:** Focus City Incentive –  
Retroactive Application

**DATE:** September 13, 2010

Approved

Date

9/17/10

## RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute a Focus City Agreement with Alaska Air Group, with a retroactive commencement date of March 10, 2010, to implement the terms and conditions of the Focus City Promotional Fee Waiver Incentive Program (Focus City Incentive Program) for new air service at Mineta San José International Airport (SJC).

## OUTCOME

Retroactive application of the Focus City Incentive Program for Alaska Air Group would allow it to include the new routes and frequencies of flights that it has already added at SJC in 2010 toward the number of new routes and flights required over a two-year period to qualify for the Incentive Program, and support the development of new air service at SJC.

## BACKGROUND

On December 1, 2009, the City Council approved a new Focus City Incentive Program (Resolution No.75186) in order to encourage airlines to add new air service at SJC, and authorized the City Manager to negotiate and execute Focus City agreements. Compared to the preexisting incentive program, the Focus Incentive Program offers longer incentive periods to any airline that designates SJC as a Focus City and commits to two consecutive years of incremental growth at SJC, adding a minimum number of new qualifying routes and frequencies.

Under the Focus City Incentive Program, an airline would qualify for a waiver of fees for two years if it adds at least four flights each year, with at least two of those flights to currently unserved or under-served cities. Additional flights to destinations that are already well served would not receive the fee waiver, but they could be counted toward meeting the remaining Focus City Incentive threshold of four new flights per year.

Alaska Air Group, which includes both Alaska Airlines (Alaska) and Horizon Air (Horizon), added a second daily flight to Austin and new daily flights to Hawaii (Kona and Maui) and Spokane in March 2010. All four of these flights qualified for the City's original flexible air service incentive program (Resolution No. 75185) and, alternatively, could have qualified for the Focus City Incentive Program with a commitment to additional growth in 2011. Alaska Air Group considered signing a Focus City agreement earlier this year but deferred action until it could evaluate the performance of the new flights it launched this spring and determine whether it had sufficient resources to add another four flights in the second year.

### **ANALYSIS**

The Airport has opened all of its new terminal facilities, and in June, Alaska and Horizon moved into the new Terminal B and actively participated in the Airport's grand opening activities. The airline's new flights have been successful, already operating with high occupancies, which is significant for new flights. Alaska Air Group has already announced plans to add more flights from San Jose to Los Angeles starting in August, to Cabo San Lucas in November, and to Kauai in March 2011.

Alaska Air Group has expressed its willingness to commit additional resources to allow more service to be added in what would be the second year of the Focus City Incentive Program, from March 2011 through March 2012 (assuming a retroactive start date in March 2010). These potential flights now make a Focus City agreement practical and desirable for Alaska Air Group if an agreement could be retroactive to include the earlier flights added in 2010. Alaska therefore has requested that the Focus City agreement be made retroactive to March 10, 2010.

Approval of retroactivity would signal the commitment of the City to support Alaska Air Group's new interest in growing at SJC, and would encourage Alaska Air Group to continue to add new routes and frequencies. In addition, it would enhance the Airport's ability to encourage other carriers to add routes for San Jose, and signal the City's commitment to strengthen long-term partnerships with airlines.

### **POLICY ALTERNATIVES**

The City Council may choose to not approve the retroactive application of the Focus City Incentive for Alaska Air Group. If Council does not approve this, Alaska Air Group will continue to receive the benefits of the original incentive program which would expire in March 2011. This could be a factor in future decisions by Alaska Air Group about when or whether it would increase service at SJC.

### **PUBLIC OUTREACH**

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: Email and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memo has been posted on both the City Council agenda website and on the Airport's website.

### **COST IMPLICATIONS**

Under the Focus City Incentive Program, the Airport waives certain airline fees and charges for qualifying new air service. Although the Airport would lose direct airline revenue of approximately \$450,000 in annual revenue for each new eligible flight, it would see increased revenues generated by passenger activity. The Airport estimates that each departing passenger generates approximately \$15 in revenue from parking fees, concessions, and other Airport services. By this rule of thumb, each new daily flight could increase Airport revenues by more than \$700,000 per year. If no carrier takes advantage of the incentive program, there would be no loss in airline revenue, but there would be no gain in non-airline revenue as well. As a result of this anticipated additional passenger-driven revenue, no increases in airline rates and charges will be required to offset waived airline fees and charges.

### **COORDINATION**

This memo was coordinated with the City Manager's Office, Office of Economic Development, Budget Office, and City Attorney's Office.

### **CEQA:**

Resolutions No. 67380 and 71451, PP 09-192

/s/  
William F. Sherry, A.A.E.  
Director of Aviation

For questions, please contact William F. Sherry, A.A.E., Director of Aviation, at (408) 501-7600