

Ad Hoc Committee on Airport Competitiveness
Meeting Report
May 5, 2011

PRESENT: Mayor Reed, Councilmembers Liccardo, Pyle and Herrera

ABSENT: NA

STAFF: City Manager Debra Figone, City Attorney Rick Doyle, Airport Director Bill Sherry, Director of Economic Development Kim Welsh, Sr. Deputy Attorney Kevin Fisher, Airport Director of Governmental Relations Jim Webb, Economic Development Policy Advisor Ru Weerakoon and Deputy City Clerk Tamara Davis.

A. Police Outsourcing/Fire Outsourcing

Documents Filed: Memorandum from William Sherry, Director of Aviation to Mayor Reed and Council dated May 4, 2011 regarding Airport Public Safety: Status Update for new Service Delivery Models and Outsourcing.

Director Sherry discussed an outsource model for police and fire. The target date for the new model was July 1, 2011. Airport staff is currently engaged in meet and confer discussions with the Police and Fire Department Unions. The City Manager is recommending the delay of the outsourcing conversion until Feb 2012. The delay will result in an additional \$2.5 million costs to Airport for seven months. The Airport will use one-time money to cover the added expenses however this will exhaust all one time money to get to the CPE goal.

Airport staff is continuing to negotiate agreements with Santa Clara County Sheriff's Office and Wackenhut Services, Inc. (WSI) for contract law enforcement and airport rescue and fire fighting (ARFF) services. In the meantime, Airport staff has modified its budget proposal for FY 2011-12 to reflect its additional costs caused by this delay as well as the staffing reduction plan proposed by SJPD. Staff will provide follow-up information on staffing levels and costs contained in the most recent public safety service proposals from SJPD and SJFD in comparison to possible contract services. Information will be available for Council discussion during budget hearings.

Action: The Committee did not take any action.

B. Status of Airport Competitiveness Strategic Plan and Financial Forecast

Documents Filed: Issue Document: Competitiveness Strategy Status Matrix May 2011

Director Sherry indicated the past actions of airport staff have resulted in \$6 savings off the CPE. The contracting of Airport law enforcement saves \$900K (\$0.22 off the CPE), contracting of ARFF services saves \$570K (\$.014 off the CPE), reduction of overall Airport staff from 400 (in 2008) to 200 (present) saved \$20 million (\$4.88 off the CPE). Additionally, the Airport trimmed another \$19.5 million (\$4.02 off the CPE) in an effort to reduce costs and lower the CPE. The Airport administration is proposing to reduce some supervisor positions in the FY 2011-12 budget. Staff is still looking at restructuring airport communication center, expenditure controls, and restructuring a contract with the VTA in an effort to further reduce costs.

Action: The Committee did not take any action.

C. Consideration of Airport Name Change

Documents Filed: Handout: Airport Naming Alternatives

The committee discuss alternative names for the airport. Airport administration is currently in a RFP process for a marketing firm to help with the name image and promoting SJC as the airport of choice.

Questions asked by the committee:

- ◆ What do airlines think of a SJC name change? (Mayor)
- ◆ Can the City utilize search engines to increase air traffic at SJC? (Pyle)
- ◆ Should the City focus more on domestic flights? (Pyle)
- ◆ What is the possibility of a joint marketing effort with a major international carrier to help market SJC and increase air traffic? (Mayor)

Director Sherry indicated Airport staff is looking at ways to increase traffic through search engines. Additionally, they are working with airline partners, hospitality industry in the area and ticket agencies to expand search terms. He also indicated the SJC should focus on international flights because those routes are getting the new airbuses and Boeing planes.

The Airport expects to have a new marketing contract in place by the end of June. The Mayor emphasized that marketing should be driven by the needs of the airlines and suggested tabling the naming discussion until there is a demonstrated need.

Action: The Committee did not take any action.

D. Airline Lease Agreement

Documents Filed: Issue Document: Airline Lease Agreements

The current lease agreement with SJC airlines expires November 30, 2012. Airport administration will work with the City Attorney's Office to put together a new agreement and bring it to City Council in closed session. The airport administration will begin negotiations with the airlines on May 25, 2011. The current lease is for five year with an option to renew. The new leases can have significant influence over the CPE.

Action: The Committee did not take any action.

E. Airport Concession Sustainability

Documents Filed: Issue Document: Concessions Viability

The SJC concessionaires have reported that they are losing money. The low enplanement rates are driving down revenues. The Airport administration is working with concessionaires to create viable options to promote profitability. The following options are up for consideration:

- ◆ Reduce minimum hours of operation
- ◆ Allow concessionaires to change from the living wage policy (this would require Council action)
- ◆ Revise pricing policy
- ◆ Close Terminal A+
- ◆ Look at amending the agreement for Clear Channel, so they can add additional sites and they don't have to pay the Airport unless they reach a specific goal and then the Airport will get a percentage of the sales.

Revenue is important in keeping the CPE down. The Airport currently uses a street price +10% for concession pricing. The Airport is also open to rebranding for underperforming concessions in an effort to help raise revenues. The contracts for Clear Channel expires in 2017, and the Food & Beverage concessionaires in 2020.

Action: The Committee did not take any action.

F. Business Engagement Strategy

Involvement of Silicon Valley businesses are going to play a major role in air service business. The Office of Economic development, the Airport and the Mayor's Office are actively engaged in courting business with the Silicon Valley Leadership Group (SVLG). The SVLG had their first meeting in April. They will meet again in June. One of the group's first activities was to survey their group to find out what their top international and domestic destinations are. The top five international destinations are Tokyo, London, Shanghai, Frankfurt, and Hong Kong. The top five domestic locations are New York, Washington D.C., Chicago, Boston, and Dallas. Ninety-nine companies responded to the

survey. The feedback is that business want greater frequency of the domestic flight locations.

OED has created a letter template to help SVLG contact airlines in an effort to let the airlines know that large prominent companies want more flights out SJC. Staff is also working with the Dublin Chamber of Commerce through the Sister City relationship to get a flight into Silicon Valley via Air Lingus. The San Jose Silicon Valley Chamber of Commerce is working recruitment and networking efforts with other chambers to solidify partnerships and improve communication.

Councilmember Liccardo suggested using the MTC, since they are currently taking up the congestion pricing issue. It might be helpful to use them to lobby for long-term efforts. Currently, the U.S. Department of Transportation has a policy against congestion pricing. However, the airline industry does not agree. Director Sherry mentioned that the three regional airports are going to have to present a unified argument to the government. The Regional Airport Planning Committee makes recommendations to the MTC and the MTC makes recommendations to USDOT.

Action: The Committee did not take any action.

G. Air Service Update

Airport staff recently attended a meeting in San Francisco with a potential airline partner, who came to view the San Jose Airport and is considering establishing a service in San Jose. Staff has secured another meeting with a potential European carrier who is also considering a SJC-European route. Additionally, staff has rekindled the ANA discussions and is working on presentations for other Asian and European carriers.

H. Next meeting Date and Time:

June 16, from 1:30 p.m. – 3:30 p.m. in the City Manager's Conference Room
(City Hall Tower – Room 1734)

I. Open Forum

NA

J. Adjournment

The meeting was adjourned at 3:22 p.m.



Mayor Chuck Reed

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