



Memorandum

TO: HONORABLE MAYOR
 AND CITY COUNCIL

FROM: John Aitken

SUBJECT: PUBLIC HEARING FOR AIR
 SERVICE SUPPORT PROGRAM

DATE: October 13, 2020

Approved

Date

10/15/20

RECOMMENDATION

- (a) Conduct a Public Hearing pursuant to California Government Code Section 53083 regarding application of the City’s Air Service Support Program, as authorized by the Federal Aviation Administration, to Alaska Airlines and Volaris Airlines.
- (b) Adopt a resolution authorizing the Director of Aviation or the Director’s designee to provide the City’s Air Service Support Program to new air carrier service as outlined in the table below:

Alaska Airlines and Volaris Airlines Routes

Airline: Market:	Alaska Redmond	Alaska Missoula	Alaska Palm Springs	Volaris Mexico City
Airport	RDM	MSO	PSP	MEX
Frequency	1 Daily	1 Daily	2 Daily	3x/week
Support Period	12 Months	12 Months	12 Months	18 Months
Landing Fee Waivers	(\$117,926)	(\$117,926)	(\$235,851)	(\$146,729)
Dedicated Marketing Funds	(\$25,000)	(\$25,000)	(\$25,000)	(\$100,000)

For each route, landing fees are waived under the program for the qualifying periods and marketing funds are provided to promote the new services.

OUTCOME

Norman Y. Mineta San José International Airport (SJC)’s support program is envisioned to help airlines offset high initial risks and costs to start new service by waiving landing fees and/or providing marketing support where applicable. Making the support program available to these airlines will help them during the most difficult time of the new service launches from San José to their respective destinations. The result will be a higher tolerance for initial route startup risks

by airlines, while increasing chances to gain long term maturity and associated profitability. The long-term success of these important new routes will benefit the Airport as well as the City by increasing revenues for both entities and providing additional travel options for our community.

The table below shows the positive impact of the new routes on Airport finances. Airport support amounts, consisting of initial period fee waivers and/or marketing funds, are exceeded by other airport fees not subject to waivers and net airport revenues from concessions, parking, Passenger Facility Charges (PFCs), and other activities. The result is positive incremental revenue for the Airport for the duration of the support period applicable to each route.

Although SJC has witnessed record levels of growth over the past four calendar years, it is important to work with a wide range of airlines to further expand the overall route network. The additions outlined in this memo reflect particularly optimistic outlooks for new SJC air service at a time when the COVID situation continues to depress global travel demand.

Alaska Airlines recognizes the need to serve markets that have strong leisure travel components, particularly with domestic and international business travel remaining weak relative to prior years. Volaris focuses on leisure and family travel across their own network, and has expressed enough confidence in the return of SJC travel demand to add Mexico City to its stable of transborder routes.

Alaska Airlines and Volaris Airlines Routes

Airline:	Alaska	Alaska	Alaska	Volaris
Market:	Redmond	Missoula	Palm Springs	Mexico City
Total Airport Fees and Net Spend	\$370,260	\$336,626	\$681,048	\$1,078,581
Total Airport Support	(\$142,926)	(\$142,926)	(\$260,851)	(\$246,729)
Net Impact Over Period	\$227,334	\$193,700	\$420,197	\$831,852

All amounts shown are net revenues to the airport during the initial support period for each qualifying route. Higher gross revenues benefit airport tenants.

After the expiration of the support periods, long term revenues associated with these routes will continue to benefit the financial situation of the Airport for all continued years of service.

BACKGROUND

The Airport is a strategic asset for achieving the City’s economic development goals. Air service provides an essential link to support and sustain Silicon Valley’s quality of life by moving people and products between San José and both domestic and global destinations. Gaining better access to national and international markets and technology centers has long been a priority of the region’s businesses. Community and business leaders and travelers have clearly expressed

their strong desire to the Airport for improved access between San José and key domestic and international cities.

From the program's beginning in 2006, the SJC Air Service Support Program has continued to evolve to consider changes in the industry as well as competitive dynamics.

In addition to the many new routes recently launched from SJC, the introduction of the new qualifying routes described in this memo continues to represent a strong endorsement of our market, particularly during the global downturn caused by COVID. These routes complement SJC's existing airline network through enhanced competition and additional options for both local travelers and visitors alike.

Airports similar in size and route network breadth to SJC also have fee waivers and marketing funds available for airlines serving both domestic and international destinations. However, SJC is also competing in a larger arena with much bigger markets as well as aggressive initiatives and/or outright stakeholder-backed subsidies:

- A 2016 survey of 25 U.S. airports including the airline hub cities of Denver, Houston, Detroit, and Phoenix confirmed that all 25 had air service incentive/support programs.
- Hartford, Connecticut's community-backed program also offers guaranteed revenues for specified new airline services.
- Dallas/Fort Worth International Airport has summarized a program of \$1.0 million or more for new qualifying international service.
- Pittsburgh International Airport has a multi-million dollar program to support new airline service in addition to waivers of landing fees.
- Among the high percentage of airports that offer incentive/support program are San Francisco International (SFO), Oakland International (OAK), Austin (AUS), and Philadelphia International (PHL).
- An Airports Council International 2020 survey further confirmed that 93% had incentive programs.

This request to apply the Air Service Support Program to the qualified new routes outlined in this memo is consistent with prior Council approvals for multiple new routes in 2016, 2017, 2018, 2019, and as recently as Council action taken in February 2020.

ANALYSIS

Air Service Support Program

The terms of the Air Service Support Program are outlined in the summary table below. Additional details regarding each section follow the summary table:

Service	Landing Fee Waiver	Marketing Funds
New Short-Haul Domestic*	100% for 12 Months	Up to \$25,000
New or Added Long-Haul Domestic	100% for 18 Months	Up to \$75,000
New International Within North America	100% for 18 Months	Up to \$100,000
New International Outside North America	100% for 18 Months	Up to \$500,000

Airlines need to apply for the support program and work with SJC staff to coordinate fee waivers and marketing funds; details of each category of qualifying service are described below:

Short-Haul Domestic Destinations

- Short-haul domestic destination defined as within 1,250 mile radius of SJC
- 100% waiver of landing fees for up to 12 months for new destinations

Long-Haul Domestic Destinations

- Long-haul domestic destination defined as more than 1,250 miles from SJC
- 100% waiver of landing fees for up to 18 months for new destinations even if currently served by another carrier or for any added frequency if currently served by the carrier that is adding service

International Destinations within North America

- 100% waiver of landing fees for up to 18 months for new destinations

International Destinations Outside North America

- 100% waiver of landing fees for up to 18 months of service

International Seasonal Service

- Seasonal schedule must be declared at the start of service
- 100% waiver of landing fees for the duration of the first year of seasonal service
- If seasonal service returns as year-round service, the start date of the full support program will coincide with the launch of the first seasonal service

Marketing Funds

- Marketing Introduction Program available to all new destinations – such resources may include on-airport messaging, website announcement, external newsletter announcement, public relations assistance, and community/business introductions
- Up to an additional \$25,000 in marketing funds for new short-haul U.S. destinations without airline match requirement
- Up to an additional \$75,000 marketing funds for any new or additional frequencies to long-haul U.S. domestic destinations without airline match requirement
- Up to an additional \$100,000 marketing funds for new international destinations within North America without airline match requirement
- Up to \$500,000 funds for any new international destination outside of North America to be spent within the first two years of operation (pro-rated for seasonal service) without airline match requirement
- All marketing funds must be used to promote the specific route to SJC

Multiple Low-Frequency Routes

- At the discretion of the Director of Aviation, applicable landing fee waivers and marketing funds not to exceed \$100,000 may be awarded to an airline that introduces multiple low-frequency routes within a 12-month period, subject to City appropriation of funds.

Snap-back Invoicing Policy

- The Director of Aviation will have the authority in extenuating circumstances to remove “snap-back” invoicing of landing and terminal fees if service is cancelled within the minimum qualifying period (12 consecutive months or 4 consecutive months for international seasonal service).

Additional Frequency Policy

- The Director of Aviation will have the authority to determine application of support funds for additional frequencies on existing routes.

Minimum Flight Requirements

- Minimum requirements to be eligible for support program: Three (3) weekly round trips for 12 consecutive months or four (4) consecutive months for international seasonal service.

Recommended Support

The new routes outlined in the memo truly represent an optimistic outlook toward market expansion at a time that has seen as much as 90% year-year declines in U.S. travel demand. Alaska Airlines, the second largest carrier at SJC in terms of flights and passengers, has continued to remain focused on the Silicon Valley market and is seeking opportunities to introduce expanded service. Volaris has also remained a steady partner to SJC, and had already provided nonstop flights to Guadalajara, Leon, Morelia, and Zacatecas prior to COVID-related suspensions.

Council support for these qualifying routes by Alaska Airlines and Volaris Airlines is recommended.

Alaska Airlines and Volaris Airlines Routes

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Landing fees are waived at 100% for the duration stated for each qualifying route, and marketing funds to promote the specific route to SJC up to the stated limits can be spent at the carrier’s discretion with the coordination and approval of SJC staff.

CONCLUSION

Norman Y. Mineta San José International Airport has dramatically increased its ability to serve the City’s business and leisure travelers through several consecutive years of air service expansion. However, as the COVID impact has decimated the global airline industry and carriers worldwide are dramatically slashing flight capacity, it is arguably even more important now to support those airlines that are willing to expand service in the face of these challenges. In August 2020, the Council took specific action to support the reinstatement of SJC’s international flights that have been suspended since the onset of COVID, and the application of the Airport’s existing program to qualifying new services as outlined in this memo is consistent with that partnership approach. Furthermore, to remain competitive in the quest for new or expanded airline flights, the City Council has consistently endorsed the Airport’s Air Service Support Program designed to help new services become sustainable even in less challenging times.

The Airport’s program, consistent with Federal Aviation Administration’s policy, is not a subsidy to any airline, and remains revenue positive during temporary fee waiver/marketing periods due to the ongoing collection of non-waived fees such as offices, baggage space, and other exclusive use space rents. Other positive revenue generation sources related to the flights include Passenger Facility Charges, Customer Facility Charges, and revenues from concessions, parking, and car rentals. The program waives future fees and does not reduce current revenues or place added costs on others. From a fiscal perspective, however, the existing program continues to stipulate that any award of marketing dollars remains subject to the City Council’s overall allocation of budgeted funds.

As noted throughout this memo, each of the four routes represented in this memo generate net positive results to the Airport and to the City in excess of the values of marketing funds and landing fee waivers:

Alaska Airlines and Volaris Airlines Routes

Airline:	Alaska	Alaska	Alaska	Volaris
Market:	Redmond	Missoula	Palm Springs	Mexico City
Net Impact Over Period	\$227,334	\$193,700	\$420,197	\$831,852
Annual Economic Impact Estimate	\$4,164,834	\$3,374,119	\$4,584,336	\$5,118,454

Although the support program used by SJC cannot guarantee each airline’s profitability on new flights due to many financial and competitive factors, the City Council’s endorsement of this program and its application to the airlines presented in this memo clearly reflects a commitment to serving the needs of our community.

EVALUATION AND FOLLOW-UP

The Air Service Support Program will monitor the number of flights to the specified destinations supported by the program to ensure that minimum service levels are met and adherence to the program specifications is maintained throughout the application period of the program.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San Jose energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative #1: The City Council may choose not to approve the application of the Air Service Support Program in the cases of the qualifying routes outlined in this memo.

Pros: None.

Cons: If Council does not approve application of this program, chances of financial success of the routes will be put in jeopardy. The airlines might choose not to operate the service altogether, as other airports become better options for the allocation of aircraft. The support program is designed to enhance the ability to attract and support new routes to SJC to benefit the Airport and the City.

Reason for not recommending: Although international air service carries a high profile and speaks to the City's global reach, domestic and North American expansion including the new flights being reviewed in this memo are also important elements of SJC's air service. Failure to offer support during the initial launch periods of service is contrary to similar competitive programs across the industry and would signal to our airlines that the City and SJC are not proactive partners fostering expansion. Without these and other prospective new services, SJC's revenue growth would be jeopardized and the economic impacts to the community would not take place.

PUBLIC OUTREACH

This memorandum will be posted on both the Airport's website and on the City Council's Agenda website for the October 27, 2020 Council meeting. The October 27, 2020 Council meeting will serve as the economic development subsidy public hearing for amounts in excess of \$100,000, as required pursuant to California Government Code Section 53083 and as further described in the Fiscal/Policy Alignment discussion below.

COORDINATION

This memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION

This item does not have explicit input from the Airport Commission, although Commission members are provided with regular updates of new airline services and proposed program changes at each scheduled meeting and have expressed support of the Airport's Air Service Support Program.

FISCAL/POLICY ALIGNMENT

This project aligns with the City’s Economic Development Strategy #9 “Keep Developing a Competitive, World Class Airport, and Attract New Air Service.”

Application of the Air Service Support Program to assist the air carriers in succeeding financially in serving the new destinations will benefit the City. The Office of Economic Development’s financial multipliers were used to calculate City-wide economic impact statistics:

Alaska Airlines and Volaris Airlines Routes

i. Name/address of beneficiary	Alaska Airlines 19300 International Blvd Seattle, WA 98188	Alaska Airlines 19300 International Blvd Seattle, WA 98188	Alaska Airlines 19300 International Blvd Seattle, WA 98188	Volaris Airlines Av. Antonio D Jaime #70 Mexico City C.P. 01210
ii. Start and end dates for support	March 1, 2020 - February 28, 2021	March 11, 2020 - March 10, 2021	December 17, 2020 - December 16, 2021	November 9, 2020 - May 8, 2022
iii. Description and estimated total amount of expenditure or revenue lost	Landing fee waivers of \$117,926 and marketing funds provided up to \$25,000.	Landing fee waivers of \$117,926 and marketing funds provided up to \$25,000.	Landing fee waivers of \$235,851 and marketing funds provided up to \$25,000.	Landing fee waivers of \$146,729 and marketing funds provided up to \$100,000.
iv. Statement of purpose	The program is designed to enhance the ability to attract and support new commercial airline service and to benefit the Airport and the City			
v. Projected tax revenue (includes Airport fee revenue)	The launch of service to Redmond OR is estimated to result in an additional \$0.2M in fees and revenues. Annual economic impact estimated at \$4.2M.	The launch of service to Missoula, MT is estimated to result in an additional \$0.2M in fees and revenues. Annual economic impact estimated at \$3.4M.	The launch of service to Palm Springs, CA is estimated to result in an additional \$0.4M in fees and revenues. Annual economic impact estimated at \$4.6M.	The launch of service to Mexico City is estimated to result in an additional \$0.8M in fees and revenues. Annual economic impact estimated at \$5.1M.
vi. Estimated number of jobs created	Employee requirements are to be determined by each airline with respect to new or expanded services being provided			

COST SUMMARY/IMPLICATIONS

Funding from the Airport’s Non-Personal/Equipment appropriation will fund the amount of \$175,000 to provide the necessary marketing funds for these qualified routes. The Air Service Support Program credits will continue to result in waivers of airline fees and charges for qualifying new air service. However, the increased revenue from parking, concessions, car rentals, Passenger Facility Charges, and other Airport services that will directly result from increased air service is expected to offset the short-term loss of revenue from waived airline fees and charges for qualifying new service. Additionally, the wider economic impact for the City resulting from these new flights has been exhibited in this document.

For the Airport Department, the impact of the Air Service Support Program for the flights discussed in this memo is a net positive result for each of the new routes for the duration of each route’s specific qualifying period. The table below again summarizes the total net fees and revenues to the Airport compared to the combination of landing fee waivers and/or marketing funds provided to support the launch of each new service.

Alaska Airline and Volaris Airlines Routes				
Airline:	Alaska	Alaska	Alaska	Volaris
Market:	Redmond	Missoula	Palm Springs	Mexico City
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Net Impact Over Period	\$227,334	\$193,700	\$420,197	\$831,852

The availability of the support program, including marketing funds, encourages new entrant carriers and existing carriers to add new destinations. As a result of this anticipated additional passenger-driven revenue, no increases in airline rates and charges are required to offset waived airline fees and charges. Higher passenger marketing expenditure amounts will help support new flights and make the San José Airport much more attractive to airlines when choosing new destinations in the future, increasing the probability of adding new service and ultimately increasing airport revenues.

BUDGET REFERENCE

The table below identifies the fund and appropriation to fund the actions recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn.	Amt. for Contract	2020-2021 Proposed Operating Budget* Page	Last Budget Action (Date, Ord. No.)
523	0802	Airport Non-Personal/ Equipment	\$48,519,899	\$175,000	IX-3	06/23/20 Ord. No. 30437
Total Current Funding Available			\$48,519,899	\$175,000		

**The 2020-2021 Adopted Operating Budget was approved by City Council on June 23, 2020.*

CEQA

Not a project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
 JOHN AITKEN, A.A.E.
 Director of Aviation

For questions, please contact John Aitken, Director of Aviation at (408) 392-3611.