



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

SUBJECT: AIR SERVICE SUPPORT
PROGRAM FOR SPIRIT AIRLINES

DATE: March 20, 2023

Approved

Date

3/29/23

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 Spirit Airlines.
- (b) Adopt a resolution authorizing the San José Mineta International Airport (SJC) Director of Aviation, or the Director's designee, to provide the City's Air Service Support Program to a new air carrier service as outlined in the table below:

Spirit Airlines Estimated Impact

Route Impact Details	Spirit Airlines
Airports Served	Las Vegas, San Diego, Dallas-Ft. Worth
Frequency	LAS 2x/day, SAN and DFW 1x/day
Period of Support	18 Months
Total Airport Fees to be Collected	\$4,245,183
Passenger Net Spend and Benefits	\$1,380,243
Total Revenue to SJC	\$5,625,426
Support Program Fee Waivers	\$1,541,217
Dedicated Marketing Funds	\$175,000
Total Fee Waivers and Marketing	\$1,716,217
Net Impact to SJC	\$3,909,209

SUMMARY AND OUTCOME

San José Mineta International Airport’s (Airport, SJC) support program is envisioned to help airlines offset high initial risks and costs to start new service by waiving fees and/or providing marketing support where applicable. Making the support program available to 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 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 detailed table shown above and the summary below highlight the estimated positive impact of the new service on Airport finances. Airport support amounts, consisting of initial period fee waivers and dedicated marketing funds, are exceeded by other airport fees not subject to waivers and net airport revenues from car rentals, concessions, parking, passenger facility charges, and other activities. The result is positive incremental revenue for the Airport above the waivers and marketing funds.

Although the Airport witnessed record levels of growth over the four calendar years prior to the outbreak of the Covid-19 pandemic, it is important to continue working with a wide range of airlines to recover and further expand the overall route network. While there is no guarantee of success, the addition of a new domestic Ultra Low-Cost Carrier (ULCC) provides our community and businesses new options for travel.

As a domestic U.S. ULCC, Spirit Airlines targets a more leisure travel customer base that is both different and complementary to the Airport’s existing domestic carriers. The introduction of Spirit recognizes the opportunity to serve markets that have leisure travel components, particularly with domestic and international business travel remaining below levels of prior years.

The desired outcomes of this new service will be for Spirit Airlines to achieve success, our community to benefit from additional competition and travel options, and the Airport to realize a significant positive net impact as estimated below.

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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 leaders and travelers have clearly expressed their strong desire to the Airport for improved access between San José and key domestic and international cities, and the Airport continues to aggressively engage commercial airlines to begin or expand service.

From the program's beginning in 2006, the Airport Air Service Support Program has continued to evolve in consideration of changes in the industry as well as competitive dynamics. In addition to the many new routes launched from the Airport in the years prior to the pandemic, the introduction of the new qualifying service described in this memorandum continues to represent a strong endorsement of our market. This new ULCC service complements the Airport'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 the Airport also have fee waivers and marketing funds available for airlines serving both domestic and international destinations. However, the Airport is also competing in a larger arena with much bigger markets as well as aggressive initiatives and/or outright stakeholder-backed subsidies:

- A 2020 Airports Council International survey confirmed that 93% of its member airports had incentive programs.
- Los Angeles International Airport launched a revised, multi-million-dollar incentive program for domestic and international routes to expedite the airport's recovery from the impact of the Covid-19 pandemic.
- Pittsburgh International Airport has a multi-million-dollar program to support new airline service in addition to waivers of fees.
- Among the high percentage of airports that offer incentive/support program are Oakland International, Austin-Bergstrom International, and Philadelphia International.
- Mid-sized airports including Indianapolis International and San Antonio International have also recently strengthened their support programs.
- San Francisco International Airport, despite its position as one of the largest trans-Pacific hubs, has successfully attracted multiple Low-Cost Carriers with the benefit of more aggressive airline cost reductions.

This request to apply the Air Service Support Program to the qualified New Entrant airline outlined in this memorandum is consistent with prior City Council approvals for multiple new routes in 2016, 2017, 2018, 2019, and 2022.

ANALYSIS

Air Service Support Program

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

Service	Landing Fee Waiver	Ticket Counter & Gate Fees Waiver	Marketing Funds
New Short-Haul Domestic	100% for 12 Months	n/a	Up to \$25,000
New or Added Long-Haul Domestic	100% for 18 Months	n/a	Up to \$75,000
New International Within North America	100% for 18 Months	n/a	Up to \$100,000
New International Outside North America	100% for 18 Months	n/a	Up to \$500,000
New Entrant Carrier (not previously served SJC)	As Above	100% for 12 Months	As Above + Up to \$100,000

Airlines need to apply for the support program and work with Airport staff to coordinate fee waivers and marketing funds. Details of each qualifying service are described below:

New Short-Haul Domestic Destinations

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

New or Added Long-Haul Domestic Destinations

- Long-haul domestic destination defined as more than 1,250 miles from the Airport
- 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

New International Destinations Within North America

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

New 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 the Airport
- An airline's use of marketing funds is subject to approval by Airport staff and are treated as a reimbursement up to the authorized amount

New Entrant Carrier

- An airline that has not previously served the Airport and meets the program's requirements will qualify for ticket counter and boarding gate fee waivers for a period of 12 months and up to an additional \$100,000 in dedicated marketing funds. These fee waivers and marketing funds are to be in addition to standard support program benefits for the qualifying service.

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 twelve-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 four 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 weekly round trips for 12 consecutive months or four consecutive months for international seasonal service.

Recommended Support

The New Entrant Airline and its initial routes outlined in this memorandum represent an optimistic outlook toward market expansion from the Airport at a time that has seen a shift toward leisure travel in the absence of significant corporate business travel recovery. Spirit Airlines will offer a complementary new product to a leisure customer base and provide our travelers with additional competitive options.

City Council support for this qualifying service by Spirit Airlines is recommended.

Spirit Airlines Estimated Impact

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New Entrant Carrier benefits reflect 100% boarding gate and ticket counter fee waivers for 12 months plus up to \$100,000 in marketing funds to promote the airline. In addition, the Dallas-Ft. Worth service meets the New or Added Long-Haul Domestic category criteria for 18 months of 100% landing fee waivers and \$75,000 in marketing funds. All marketing funds up to the stated limits can be spent at the carrier’s discretion with the coordination and approval of Airport staff.

EVALUATION AND FOLLOW-UP

Airport staff, in accordance with 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.

COST SUMMARY/IMPLICATIONS

Funding from the Airport Department’s Non-Personal/Equipment appropriation will fund the amount of \$175,000 to provide the necessary marketing funds for this qualified service. 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 dedicated marketing funds 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 memorandum is expected to be a net positive result. The table below again summarizes the total net fees and revenues to the Airport compared to the combination of fee waivers and marketing funds provided to support the launch of the new service.

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The availability of the Support Program, including marketing funds, encourages new entrant carriers and existing airlines to add new destinations and competitive flights. 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. Marketing expenditures will help support new flights and make the 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	2022-2023 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
523	0802	Airport Non-Personal/ Equipment	\$51,142,505	\$175,000	948	06/21/22 Ord. No. 30790
Total Current Funding Available			\$51,142,505	\$175,000		

COORDINATION

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

PUBLIC OUTREACH

This memorandum will be posted on both the Airport Department’s website and on the City Council’s Agenda website for the April 11, 2023 City Council meeting. The April 11, 2023 City Council meeting will serve as the public hearing, as required pursuant to California Government Code Section 53083 and as further described in the Fiscal/Policy Alignment discussion below.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

CEQA

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

PUBLIC SUBSIDY REPORTING

This item includes a public subsidy of \$100,000 or more as defined in California Government Code section 53083. Required information is provided below.

Subsidy definition clarification: The use of fee waivers and marketing funds is not defined as a subsidy under Federal Aviation Administration Grant Assurances restrictions. These approaches are allowed as a mechanism for airports to attract and support expanded airline service, and the Airport’s support program is therefore not a subsidy under the Federal Aviation Administration’s definition and remains consistent with their policy.

Application of the Air Service Support Program to assist the airline’s new service succeed financially will benefit the Airport and the City. Estimates of economic impact included below use the Office of Economic Development and Cultural Affairs’ financial multipliers.

Spirit Airlines Estimated Impact

i. Name/address of beneficiary	Spirit Airlines 2800 Executive Way Miramar, FL 33025
ii. Start and end dates for support	Targeting June 2023 - November 2024
iii. Description and estimated total amount of expenditure or revenue lost	Landing fee waivers of \$300,965 Ticket counter fee waivers of \$265,329 Boarding gate fee waivers of \$974,923 Marketing funds of \$175,000
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 Spirit Airlines routes are estimated to result in an additional \$3.91M in fees and revenues. Annual economic impact estimated at \$32.6M.
vi. Estimated number of jobs created	Employee requirements are to be determined by each airline with respect to new or reinstated services being provided

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

The principal author of this memorandum is Mark Kiehl, Manager, Air Service Development. For questions, please contact mkiehl@sjc.org or (408) 392-3624.