CED AGENDA: 5/20/19
ITEM: D (3)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE

FROM: John Aitken

SUBJECT: AIR SERVICE UPDATE

DATE: May 6, 2019

Approved Kim Walesh

Date May 13, 2019

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Accept the staff report on updates regarding commercial air service at the Airport.

BACKGROUND

Norman Y. Mineta San José International Airport (SJC) is a strategic asset for achieving the City's economic development goals, and commercial 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. Since launching a broader strategic air service development program in 2014, SJC has dramatically expanded the breadth of the route network serving the City and its constituents and provides enhanced levels of service for visitors to our region.

Like other multi-airport regions, the Bay Area market is served by major commercial service airports that both compete and complement one another in their ability to meet the needs of the traveling public. San Francisco International Airport (SFO) has long been this region's primary international gateway and serves as a strategic hub for United Airlines, while Oakland International (OAK) has continued to be a domestic hub for Southwest Airlines. Recognizing that those two airports continue to compete aggressively for Bay Area flights, SJC remains uniquely positioned to serve as "Silicon Valley's Airport" and thus make substantial gains in both domestic and international air service.

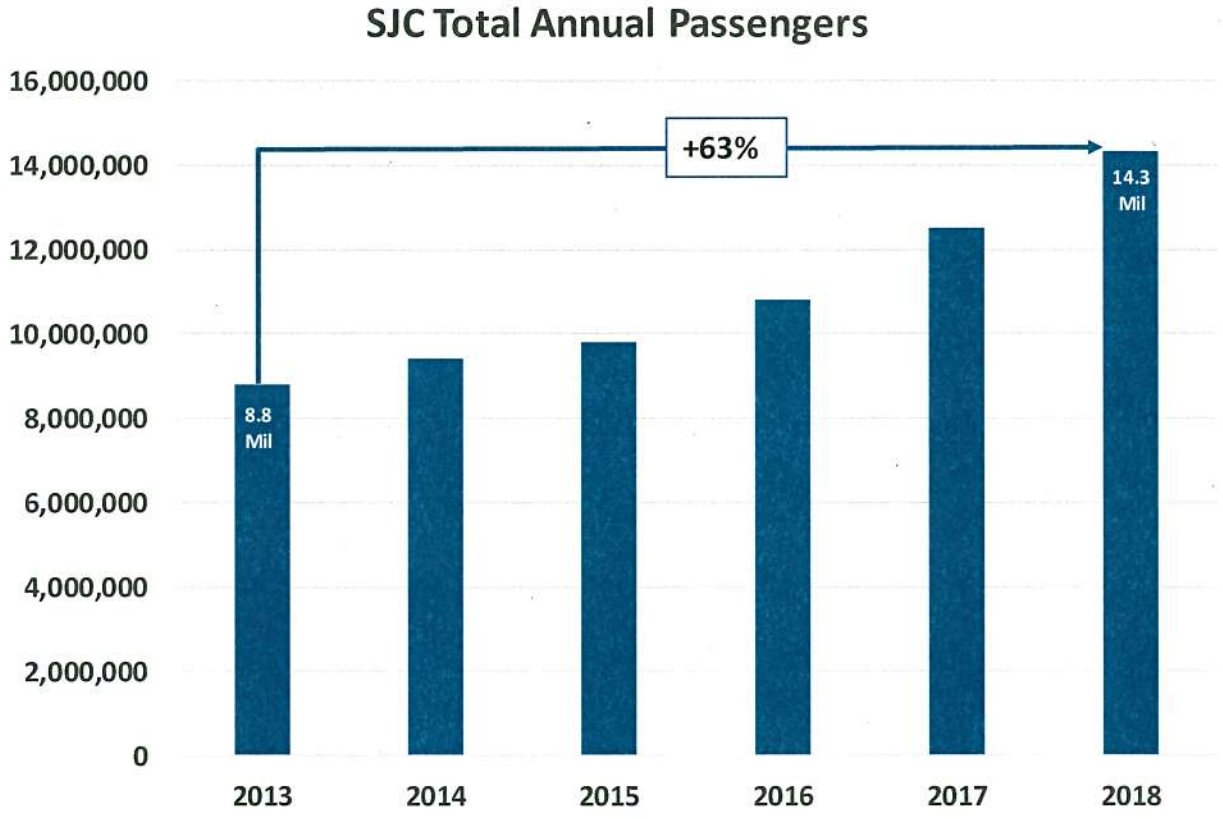
ANALYSIS

Commercial airports are largely defined by their level of commercial airline service, driven by the need to serve business and leisure travelers both to and from their respective regions. Success is determined by maintaining a wide range of travel options, a strong competitive mix of

airlines, and the ability to host high profile international carriers within each market's unique ability to support such service.

To illustrate the growth of air service at SJC, the following exhibit shows the record-level growth in total airport passengers over the most recent five calendar year period. After several years of modest increases and little or no expansion of SJC's nonstop route network, a much broader range of airline services exists today, competition is much more prevalent, and our airport has continued to rank in the Top 5 among U.S. major airports in terms of growth over this period.

Exhibit 1: Total Annual Passengers



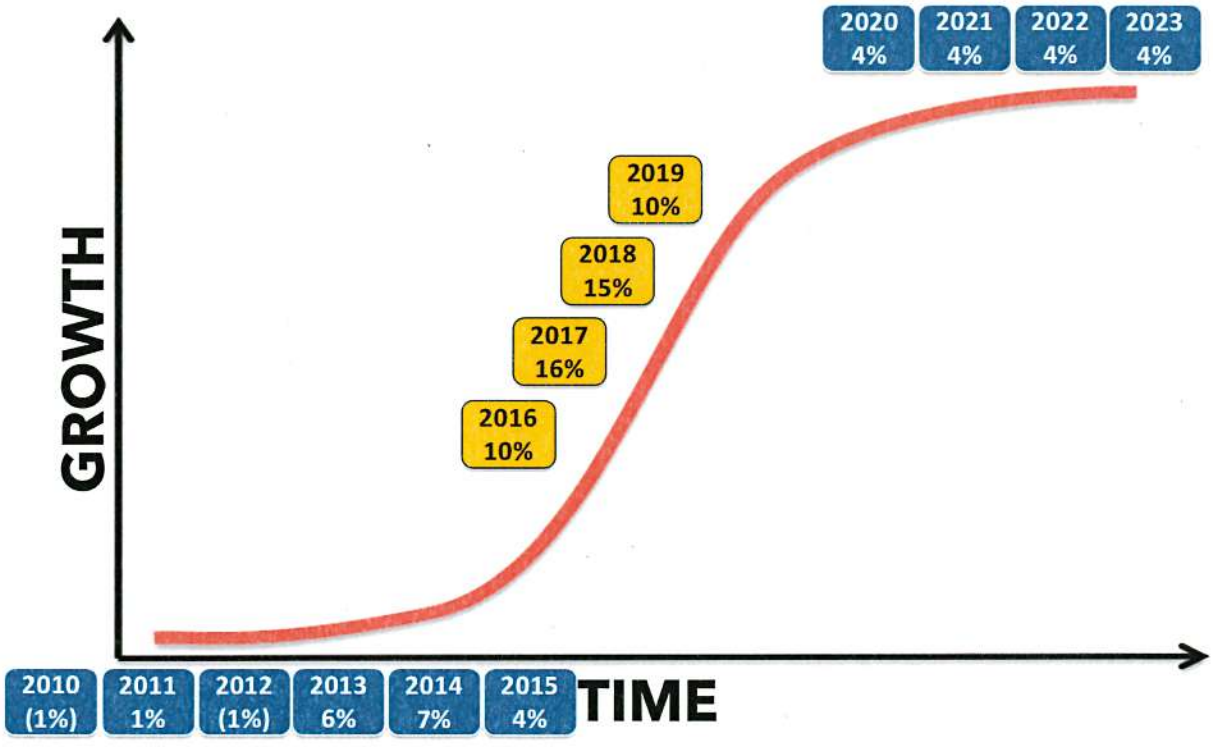
This period of very high growth, measured against national rates in the low single digits, created some noteworthy results:

- 2019 will be the fourth consecutive calendar year of adding one million or more total passengers at SJC, with year-end 2019 currently projected to reach 15.6 million;
- SJC has been the only U.S. major airport to hold a Top 5 ranking over the past several years, and only 10 other airports have reached that position since 2016;
- After many years of flying to only 28-30 nonstop destinations, SJC's airlines now serve approximately 50 cities in total;
- Over 50 new airline services have been launched, including many newly competitive routes as well as new destinations;

- Five years ago, only half of SJC's airline capacity had more than one airline providing head-head competition, while that number approaches 90% today;
- Although some domestic and international routes have encountered challenges and withdrawn during the period of rapid expansion, the overall network has continued to produce high volumes of passengers and surpassed the all-time record in December 2018;
- SJC's 12-month passenger totals have growth from under nine million in early 2014 to a projected 15 million by late summer 2019 and 16 million by mid-2020. While the overall outlook remains positive due to the continuing dynamics of Silicon Valley, annual growth rates are anticipated to moderate after four record years. Many new routes have now been added, the level of competition has increased substantially, and physical constraints of airport facilities cannot be fully solved even with the Interim Gate Facility nearing completion.

The following graph depicts the conceptual pattern of SJC's annual passenger growth rates. Often referred to as a maturity curve, live cycle profile, or simply an "S-curve", this common business pattern reflects many years of modest increases long after the last major recession ended, the current four years of highly dynamic expansion, and an outlook that is more likely to be a return to modest growth rates on top of a much higher base of passengers.

Exhibit 2: General Growth Trends in SJC Total Passengers



SJC's air service development initiatives will continue to focus on strategic domestic and international routes that align with the wants and needs of our business and leisure communities.

In conclusion, we are witnessing a major transitional period in SJC's role in the Silicon Valley region and a strong repositioning of the airport's route network. With growth rates several times the national average, it is expected that SJC will begin to experience continued growth at more modest rates but will benefit from the foundational airline partnerships that have emerged in recent years.

Today, SJC offers more nonstop destinations than at any time in the Airport's history, and includes high profile foreign flag airlines and a broad array of domestic destinations. The air services are now much more diversified, competitive, and reflective of the dynamic Silicon Valley market being served.

COORDINATION

This memorandum is an update only and did not require coordination with the City Attorney's Office or the City Manager's Budget Office.

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

For questions please contact John Aitken, Director of Aviation at (408) 392-3610.