



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

**SUBJECT: COVID-RELATED EXCEPTION
TO AIRLINE AIR SERVICE
SUPPORT PROGRAM**

DATE: January 27, 2021

Approved

Date

1/27/2021

RECOMMENDATION

Adopt a resolution revising the Airport Air Service Support Program to reduce the minimum weekly flight threshold that is a condition to receive fee waivers and marketing support retroactive from January 1, 2021 through the termination or expiration of the City's Proclamation of COVID-19 Local Emergency and repeal Resolution No. 78802.

OUTCOME

Council approval of this recommendation will allow airlines that operate at the Norman Y. Mineta San Jose International Airport to remain eligible for fee waivers and marketing support under the City's Airport Service support program during the period that the airlines operate on reduced weekly flight schedules during the pendency of the City's Proclamation of COVID-19 Local Emergency. The minimum weekly flight schedules currently required to maintain eligibility for fee waivers and marketing support under the City's Airport Service support program will resume upon expiration or termination of the City's Proclamation of COVID-19 Local Emergency.

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 air travelers have clearly

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

The Airport continues to maintain a formal Air Service Support Program that has continued to evolve since its introduction in 2006. The SJC program, similar to those that are widely used across the industry, remains consistent with the Federal Aviation Administration's policies, and is designed to offer support for the expansion of commercial airline service. The Mayor and City Council have been consistently and unanimously supportive of this program, having seen the net positive revenue and economic impact benefits of new service that helped achieve SJC's record setting pace over the last several years.

Today, however, the COVID impact is rapidly changing the landscape for commercial airline service around the globe. Airlines continue to experience staggering financial losses, thousands of jobs have been shed despite the CARES funding, and the timeline for travel recovery remains unknown. For these reasons, the Airport continues to take a strong approach to communicate our partnership commitment to the commercial airlines that have served the business and personal domestic and international travel needs of our community.

ANALYSIS

To address these impacts, Airport staff recommends a temporary reduction in minimum frequency requirements currently required to maintain eligibility for fee waivers and marketing support under the City's Airport Service support program from the current level of three (3) weekly flights to one (1) weekly flight during the pendency of the City's current Proclamation of COVID-19 Local Emergency. Because this recommended action is intended to address the impact of COVID on the air travel industry, the minimum weekly flight schedules currently required to maintain eligibility for fee waivers and marketing support under the City's Airport Service support program will resume upon expiration or termination of the City's Proclamation of COVID-19 Local Emergency.

This recommended reduction in minimum service levels applies to Council-approved airline route applications and does not require additional funds at this time.

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 record-breaking air service expansion. Unfortunately, the outbreak and impact of the COVID-19 virus dramatically altered the entire global commercial aviation industry, leading to border closures, quarantines, aircraft groundings, and a number of policy decisions that virtually shut down large sectors of travel.

Locally, this situation also led to a derailing of SJC's continued record-setting trajectory, leading to the same 90% or greater passenger reductions seen across the nation compared to 2019. As of this writing, domestic flights and passengers are showing continued signs of weakness, North American international routes are still constrained, and the reinstatement of long-haul international flights has yet to occur.

Under these circumstances, the Airport proposes taking a proactive partnership lead by reducing the minimum service level frequencies required by the Air Service Support Program on a temporary basis tied to the timeline of the City's COVID Emergency Declaration.

EVALUATION AND FOLLOW-UP

Airport staff will continue to monitor the application of the program specific to each Council-approved airline and qualifying route to ensure adherence to program requirements.

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 proposal for temporarily reducing minimum service level requirements of the Air Service Support Program.

Pros: None.

Cons: If Council does not approve the recommended action, flights will be put in jeopardy and the airlines might choose not to operate the services altogether, as other airports become better options for the allocation of aircraft. The temporary reduction in minimum required service levels provides additional flexibility during this period of COVID impact on travel.

Reason for not recommending: As the COVID pandemic continues to have a significant negative impact on domestic and international travel, the Airport's recommendation to temporarily provide more flexibility for Council-approved qualified routes allows the benefits of the program to help offset continued pressures on airline services.

PUBLIC OUTREACH

This memorandum will be posted on both the Airport's website and on the City's Council Agenda website for the February 2, 2021 Council meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

This item does not have explicit input from the Airport Commission, although Commission members are provided with regular updates of airline services and proposed program changes and have expressed support of the Airport's Air Service Support Program and the use of fee waivers marketing funds as a viable partnership approach.

FISCAL/POLICY ALIGNMENT

The Air Service Support Program aligns with the City's Economic Development Strategy #9 "Keep Developing a Competitive, World Class Airport, and Attract New Air Service."

Application of approved fee waivers and dedicated marketing funds to assist the air carriers in succeeding financially will benefit the City.

COST SUMMARY/IMPLICATIONS

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, there is wide economic impact for the City resulting from these new flights.

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.

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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) 392-3610.