City of FRESNO

REPORT TO THE CITY COUNCIL

AGENDA ITEM NO. 1 A	
COUNCIL MEETING	1/26/12
APPROVED BY	
DEPARTMENT DIRECTOR	
CITY MANAGER	

January 26, 2012

FROM: RUSSELL C. WIDMAR, AAE
Director of Aviation

SUBJECT: ADOPT SECOND REVISION OF THE DOMESTIC AIR SERVICE INCENTIVE PROGRAM FOR THE FRESNO YOSEMITE INTERNATIONAL AIRPORT TO ENCOURAGE AIR SERVICE TO NEW MARKETS

RECOMMENDATION

Staff recommends the City Council approve the revised Domestic Air Service Incentive Program for the Fresno Yosemite International Airport (FYI) to encourage air service to new markets. A copy of the amended program is included as Attachment A.

EXECUTIVE SUMMARY

Rising oil prices and the severe economic downturn have caused airports to be more aggressive and competitive with each other in offering financial and other incentive packages for new air service; and the airlines are now expecting such packages when considering service to a new destination.

On January 23, 2007 Council approved the first domestic air service incentive program, which was used to attract ExpressJet non-stop service to Long Beach, Ontario and San Diego. After two years of very successful service, ExpressJet filed for Chapter 7 bankruptcy protection (the liquidation option) due to the combination of rapidly escalating jet fuel prices and the economic downturn. The program was first amended on September 30, 2008 when the Council approved a change that encouraged upgauging (larger aircraft substituting for smaller aircraft on the same route). This was used to attract American Airlines' use of regional jets in lieu of smaller turbo prop aircraft serving Los Angeles International Airport. These planes are still in use today between FYI and LAX.

San Diego remains the domestic market most requested by passengers using the Fresno Yosemite International Airport, and has been our primary marketing focus with selected airlines since the demise of ExpressJet in September 2008. One reason given by the airlines for their disinterest in this market has been the lack of competitive incentives offered by FYI vis-à-vis other airports. We cannot change the economic factors that drive airline decision making regarding route offerings, however, we are recommending revisions to our incentive program (New Program) to make FYI more attractive to the airlines considering new routes. The New Program is the result of many discussions with a number of airlines over the past 18 months (see Attachment B). We think it will make a difference in our ability to attract new air service.

The New Program is being presented to City Council at this time for three reasons:

1. Our existing program is not consistent with the new Federal Aviation Administration Air Carrier Incentive Program Guidebook issued late 2010 and that needs to be corrected.

2. We need to enhance the existing program to be more competitive with other airports in domestic markets (see Attachment C).

3. We are in discussions with certain airlines to serve new markets beginning this Spring/Summer and have used the possibility of enhanced incentives to move those discussions along.

The New Program uses a three-tiered approach that provides incentives tailored to short, medium and long haul destinations; providing higher incentives for long-haul than short or medium-haul service because of the greater financial risks involved. The required minimum frequency of service is also tiered based on distance.

BACKGROUND

The attraction of new service by Mexicana, AeroMexico and Volaris Airlines using our international incentive program is direct evidence of the success we can achieve when we are able to compete on a level playing field. This success is further emphasized by the November 2011 report from the Director General Civil Aviation (Mexico) that indicates Fresno is behind only Los Angeles of all nine California and Nevada air markets in outbound traffic to Guadalajara. This is a remarkable statistic given the size of the underlying air service markets in Las Vegas, San Francisco, Oakland, San Diego, San Jose and Sacramento.

Since the economic downturn hit FYI in 2008 our strategy has been to retain the air service we have. Our strategy is working. Although the December passenger statistics are not available yet, we expect to end calendar year 2011 within percentage points of our peak in 2007, which positions us perfectly for a record year in 2012. By contrast, Ontario and San Jose International Airports, both significantly larger than FYI, have seen traffic downturns in the 25-30% range and have remained there while FYI has grown.

We want to emphasize that this is an incentive program not a subsidy for airlines. The proposed incentives reduce or waive fees and provide for acceptable promotional expenses where the purpose is to encourage an air carrier to provide new service at the Airport. A subsidy on the other hand, is a direct payment of airport revenue to a carrier in exchange for additional service.

In order to bring our New Program consistent with the FAA's current guidance we changed our approach from one of jet-only and minimum seat counts and minimum frequencies to include a broader allowance for all aircraft types with no minimum seat requirement. We dealt with the flight frequency issue by factoring in less frequencies for longer distance flights. Lastly, the upgauging provision in the amended September 2008 Program is removed because it does not comply with new FAA guidance.

The airlines were helpful in the development of the New Program and were able to direct us to those airports having successful incentive programs thereby saving us time and money. We verified all information provided by airline sources and engaged Boyd Group International to confirm the New Program's consistency with FAA guidance.

FISCAL IMPACT

The New Program is purposed to reduce financial barriers to entry for any airline wishing to serve FYI in new markets. We will continue to provide quantifiable cash and non-cash incentives to the "qualifying airlines", although it should be noted that we have never waived all fees.

Short-Haul Distance – less than 600 statute miles (SM)
Waiver of landing fees for one (1) year for each "qualifying flight" and a total marketing incentive of $24,000 (payable in 12 equal monthly installments); six frequencies per week required.

Annual out-of-pocket cash value of marketing incentive:	$ 24,000
Annual non-cash value of waived landing fee:	$ 45,500
Typical annual value of cash and non-cash incentives:	$ 69,500

Medium-Haul Distance – greater than 601 SM and less than 1500 SM
Waiver of landing fees for eighteen (18) months for each "qualifying flight" and a total marketing incentive of $36,000; four frequencies per week required.

Annual out-of-pocket cash value of marketing incentive:	$ 24,000
Annual non-cash value of waived landing fee:	$ 71,000
Typical annual value of cash and non-cash incentives:	$ 95,000

Long-Haul Distance – greater than 1500 SM
Waiver of landing fees for two (2) years for each "qualifying flight" and a total marketing incentive of $48,000; two frequencies per week required.

Annual out-of-pocket cash value of marketing incentive:	$ 24,000
Annual non-cash value of waived landing fee:	$ 51,000
Typical annual value of cash and non-cash incentives:	$ 75,000

Note that to determine the value of the waived landing fee we have assumed, (i) minimum flight frequency, and (ii) typical aircraft for the route involved. For example, a Bombardier Q-400 is assumed for short-haul routes; a Boeing 737-700 is assumed for medium-haul routes; and, a Boeing 757-200 is assumed for long-haul routes.

We are not waiving fees or rents typically paid by an airline that are related to allocated common-use space, passenger facility charges, security processing, terminal rents, IT common use-equipment, loading bridge and gate use. We have not attempted to quantify the increased revenues from automobile parking, car rentals, and other concession sales, but if the international flights are an indication the results will be positive. For example, since AeroMexico and Volaris began flying in April 2011 we have seen a 12% increase in automobile parking revenues, and a 2.3% increase in concession revenues, which when annualized results in over $550,000 in new operating revenue to the Department. This does not include passenger facility charges or Federal Inspection Station use fees that were not waived.

Since the Department is a self-supporting Enterprise of the City of Fresno, there will be no impact to the General Fund from this action.

Attachments:
A) Incentive Program for Scheduled Domestic Passenger Air Services – revised January 2012
B) One-On-One Airline Presentations 2008-2011
C) Airport Industry Incentive Comparisons

Airports Department of the City of Fresno, California
Fresno Yosemite International Airport

Revised: January, 2012

Incentive Program for Scheduled Domestic Passenger Air Services

Purpose

The purpose of this (Revised) Airline Incentive Program is to encourage, through temporary fee waivers, the introduction of two-way, non-stop scheduled passenger service between the Fresno Yosemite International Airport (FYI) and other airports in the United States that are not already being served on a scheduled non-stop basis.

Qualifying Airlines, Qualifying Flights and Additional Qualifying Flights

A "Qualifying Airline" is a US based airline holding an approved FAA Operating Certificate under Federal Aviation Regulation Part 121 and offering scheduled passenger service in the US.

A scheduled non-stop flight that arrives and departs FYI to/from another US airport that is not already being regularly served on a non-stop basis to/from FYI is a "Qualifying Flight".

A flight(s) added by a Qualifying Airline to its schedule of Qualifying Flights, which additional flight(s) would be a Qualifying Flight except that the market is already being served by that Airline's own Qualifying Flights, is an "Additional Qualifying Flight" if that airline starts to operate it within one hundred eighty (180) days of its first Qualifying Flight in that market.

Philosophy

This revised incentive program is structured into three tiers to reward airlines that introduce scheduled, non-stop service from FYI to new airports in the United States. The program provides progressively higher incentives for long-haul than medium-haul or short-haul service because of the greater financial risks involved in long-haul flying. Additionally, this program has been revised to conform to the new FAA Air Carrier Incentive Guide book for airports providing incentives to attract new air service.

Short-Haul Distance - less than 600 statute miles (SM)

Incentives for Qualifying Short-Haul Flights and Additional Qualifying Flights

- Waiver of landing fees for one (1) year for each "Qualifying Flight" provided there are not less than six (6) scheduled non-stop flights per

ATTACHMENT "A"

week to any airport falling within the short-haul range; and each "Additional Qualifying Flight".

- Total cash marketing incentive of $24,000 payable in equal monthly installments over twelve (12) months.

Medium-Haul Distance - greater than 601 SM and less than 1500 SM

Incentives for Qualifying Medium-Haul Flights and Additional Qualifying Flights

- Waiver of landing fees for eighteen (18) months for each "Qualifying Flight" provided there are not less than four (4) non-stop flights per week to any airport falling within the medium-haul range; and each "Additional Qualifying Flight".

- Total marketing incentive of $36,000 payable in equal monthly installments over 18 months.

Long-Haul Distance - greater than 1500 SM

Incentives for Qualifying Long-Haul Flights and Additional Qualifying Flights

- Waiver of landing fees for two (2) years for each "Qualifying Flight" provided there are not less than two (2) non-stop flights per week to any airport falling within the long-haul range; and each "Additional Qualifying Flight".

- Total marketing incentive of $48,000 payable in equal monthly installments over 24 months.

Program Duration

This Program shall be in effect until terminated by the City Council of Fresno, California. Such termination shall not, however, terminate any letter agreement between the Department and Qualifying Airline under which that airline is operating Qualifying Flights and/or Additional Qualifying Flights and receiving incentives.

If the FAA shall ever determine that an adjustment or adjustments is/are necessary, with or without retroactive effect, then the Incentive Program shall thereupon be deemed adjusted as required.

Application for Financial Incentives

Any airline interested in operating "Qualifying Flights" or "Additional Qualifying Flights" at FYI should either visit in person or write a letter on its letterhead to:

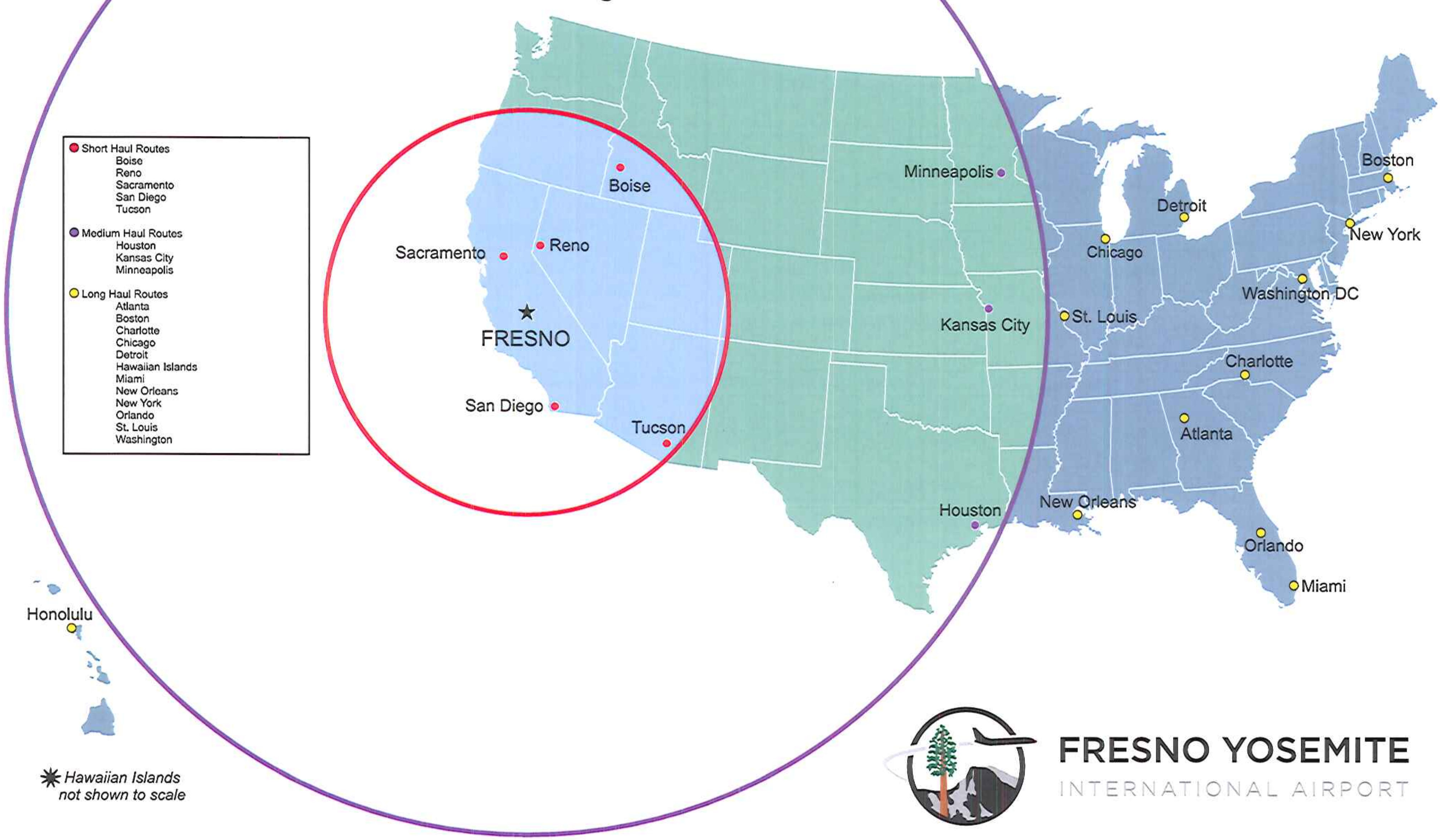
Director of Aviation
City of Fresno - Airports Department
4995 E. Clinton Way
Fresno CA 93727

The letter should indicate the air service(s) proposed including type of equipment, schedules, frequencies, requested start date; and the new or additional passenger terminal and other airport space(s) needed to support the service(s). The award of incentives will be covered by a letter agreement. Airlines receiving incentives also will be required to enter the Airports Department standard Airport/Airline Operations Agreement if they have not already done so.

Note - it is not the City's intention to provide incentives to any airline that has reduced or suspended certain flights at FYI and thereafter restores them seasonally or temporarily. The decision of the City's Director of Aviation in this regard shall be final.

Any questions should also be addressed to the Director of Aviation.

Fresno Yosemite International Airport
Three Tier Incentive Program



FRESNO YOSEMITE
INTERNATIONAL AIRPORT

Fresno Yosemite International Domestic Incentive Revision

One-On-One Airline Presentations 2008 - 2011

- AeroMexico
    - Guadalajara, Mexico City, and Morelia
- Air Tran
    - Anywhere in their route system
- Alaska Air
    - Portland, Seattle, Guadalajara, San Diego
- Allegiant Air
    - Hawaii and additional Las Vegas service
- American Airline
    - Chicago O'Hare, additional Dallas Fort Worth
- American Eagle
    - San Diego, additional LAX
- Cape Air
    - Canada
- Delta Air Lines
    - Additional service to Salt Lake City. Resurrect Atlanta option
- Exchange Income
    - Canadian holding company requested meeting re: FAT and region
- Horizon Air
    - San Diego, additional service to Portland and/or Seattle
- JetBlue
    - Chicago or New York (JFK), Long Beach
- Mexicana
    - Pre and post bankruptcy (discussions continued)
- SkyWest
    - San Diego
- SouthWest
    - Anywhere! Highlight international opportunity; Volaris partnership
- Spirit Airlines
    - Chicago O'Hare
- United
    - Chicago O'Hare, additional service to Denver
- US Airways Express
    - Additional service to Phoenix, Las Vegas
- Vision
    - San Diego, Sacramento
- Volaris
    - Destinations in Mexico

ATTACHMENT "B"

Airport Industry Incentive Comparisons

California

Charles M. Schultz Sonoma County Airport, CA
Waiver of **all fees (except fuel flow) for 12 months** for new service to new destinations and marketing assistance up to $30,000.

Palm Springs International Airport, CA
$1 million 'air service incentive program' boosting service to the Coachella Valley. The airport would partner with the airlines on marketing and advertising promotions. The airport temporarily waives landing and other fees charged to airlines.

Sacramento International Airport, CA
Offers up to $100,000 per year for service to any new destination.

San Diego International Airport, CA
Waiver of landing fees and rents owed to the airport for one year. A maximum marketing incentive of $35,000 for new destination, however this incentive varies based on aircraft type. A daily 737 for instance would receive $35,000 for a new market.

Mineta San Jose International, CA
Up to two years of fee waivers for new, domestic service and three years for new international service.

United States

Alaska International Airport, Anchorage and Fairbanks, AK
Waiver of all landing and gate fees and fuel flowage fees for two years or an aggregate $3,000,000 (three million dollars) paid to all participating airlines over the term of the program.

Dane County Regional Airport, Milwaukee, WI
$100,000 promotional and marketing assistance and two years abatement of landing fees for a minimum of four times a week service.

Detroit Metropolitan Wayne County Airport, MI
Discounted landing fees and marketing support for new service. The discount applies only to flights from the qualifying origination/destination point for 12 months.

Colorado Springs Airport, CO
Fee waiver for landing fees for two years and cooperative marketing support for one year.

Eastern Iowa Airport, Cedar Rapids, IA
Waiver of landing fees. In some instances, if it is a carrier we presently have and they add a city in one of our top 10 un-served markets, we have **waived fees for all their existing service and the new service for one year**. Marketing dollars depending on the destination can range from $50,000 to $100,000 for a year.

Gerald R. Ford International, Grand Rapids, MI
12 months of waived landing and apron fees and $250,000 in marketing support for new-entrant carriers.

Pensacola Regional Airport, FL
Two year support program that includes $400,000+ marketing, $850,000 start-up offset.

Portland, OR
$4 million in retention incentives for new, international service to Amsterdam and Tokyo: ($500,000 waived landing fees, $3.5 million cash incentive). The cash incentive was offered out of the general fund.

Wichita Airport Authority, KS
Waiver of landing fees, terminal rents and charges and marketing support for up to two years.