



# City of San Antonio

## Agenda Memorandum

**File Number:** 15-3479

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**Agenda Item Number:** 20.

**Agenda Date:** 11/12/2015

**In Control:** City Council A Session

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**DEPARTMENT:** Aviation

**DEPARTMENT HEAD:** Frank Miller

**COUNCIL DISTRICTS IMPACTED:** Citywide

### **SUBJECT:**

Air Service Incentive Program for the San Antonio International Airport

### **SUMMARY:**

This Ordinance authorizes the Air Service Incentive Program for 2015-2018 to attract additional non-stop service to the San Antonio International Airport (SAT). The program builds on the current program by providing more flexibility for the airport to attract new airlines and non-stop service to San Antonio and the South Texas region.

The Air Service Incentive Development Program for 2015-2018 assists the City in its efforts to increase airline capacity, services and competition to better serve the customers and businesses in San Antonio and the South Texas region. The City will utilize its resources and partner with area stakeholders to enhance recruitment efforts and support for new airlines and non-stop routes from SAT.

This program will replace the current program, approved by City Council in March 2011 and amended in August 2013, and will expire on September 30, 2018.

### **BACKGROUND INFORMATION:**

In March 2011, City Council authorized the Air Service Incentive Program for San Antonio International Airport through Ordinance 2011-03-31-0242. The program assists the City in attracting new or additional service to key destinations through marketing incentives and landing fee rebates. In August 2013, City Council authorized an amendment and revisions to the program to extend it through September 30, 2018.

## **Air Service Incentive Program for 2015-2018**

The new program requires a minimum number of departures per year, rather than the number of flights during the week or year as in the current program. This approach provides greater flexibility to air carriers to meet the requirements to the incentives.

### Marketing Incentives

- \$100,000.00 to any air carrier that begins non-stop departures on an unserved route provided the service level is a minimum of 365 scheduled departures during the incentivized 12-month period.
- \$75,000.00 to any air carrier that begins non-stop departures on an unserved route provided the service level is less than 365 scheduled departures but not less than a minimum total of 260 scheduled departures during the incentivized 12-month period.
- \$50,000.00 to any air carrier that begins non-stop departures on an unserved route provided the service level is less than 260 scheduled departures but not less than a minimum total of 156 scheduled departures during the incentivized 12-month period.
- \$25,000.00 to any air carrier that begins non-stop departures on an unserved route provided the service level is less than 156 scheduled departures but not less than a minimum total of 104 scheduled departures during the incentivized 12-month period.
- Double above marketing amounts for non-stop flights flown on targeted routes.
- One-time \$100,000 to promote new airlines entering the market and services being provided.
- Air carriers requested greater flexibility in how SAT makes payment for eligible marketing incentives and the new program has three methods rather than one.

### Landing Fee Waivers

- Landing fee waivers are offered for initiation of new non-stop flights on unserved or underserved qualifying routes with a minimum total of 104 scheduled departures during a 12-month period.
- Landing fee waivers are offered to new airlines entering the marketing for the first time on all served and unserved routes with a minimum total of 104 scheduled departures during a 12-month period.

### Airport Facility Rents and Fees Waivers

- Part or all terminal and airfield rents and fees may be waived for airlines that enter the market for the first time, establish a Based Aircraft Operation or establish San Antonio as a Focus City

### Based Aircraft Operation

The new program adds an incentive for any air carrier (new to the market or an incumbent) that bases aircraft and domiciles personnel at SAT for the purpose of adding new service. Any air carrier establishing a Based Aircraft Operation at SAT must commit to domiciling a minimum of 10 personnel and base a minimum of one aircraft for an initial 12-month period and to add a second Based Aircraft before commencement of a second 12-month period. Additionally, the Based Aircraft Operation incentive requires the addition of new non-stop scheduled departures from SAT on a minimum of two unserved routes with a minimum total of 104 scheduled departures for each route being served during the initial 12-month incentivized period. Marketing incentives extend to adding service on unserved routes. Landing fee waivers apply to the start of service on unserved or underserved qualifying routes. Airport facility rents and fees waivers may apply to terminal and airfield facilities incrementally leased to accommodate the airline's base operation.

### Focus City Operation

The new program provides greater flexibility for an air carrier to establishment of a Focus City Operation for the purpose of adding new air services in the San Antonio market. Any air carrier (new or an incumbent) establishing a Focus City Operation at SAT must commit to initiating and serving a minimum of five new non-stop flights on served or unserved routes with a minimum of 104 scheduled departures from SAT. One of five

new non-stop flights must be on an unserved route. One route may be added on a seasonal basis, requiring a minimum of 24 non-stop flights during a continuous 90-day period to receive a one-time marketing incentive. The initial incentivized 12-month period may include marketing for the start of non-stop flights on the unserved route and waivers up to 100% of terminal and airfield rents and landing fees.

During a second year of a Based Aircraft Operations or Focus City Operations, the airline continuing to meet the requirements of the first year may also be eligible for an extension of the Marketing Incentives, Landing Fee Waivers and Airport Facility Rents and Fees Waivers at 50% of the incentives provided during the first year of Based Aircraft Operations or Focus City Operations at SAT. All incentives will not exceed a 24-month period.

On September 15, 2015, the Airport Advisory Commission was briefed on the item and expressed support for the proposed changes. On November 3, 2015, the Economic and Human Development Council Committee was briefed on the proposed changes and also supported the item moving forward to the full City Council.

#### **ISSUE:**

The Air Service Incentive Program encourages new non-stop air service from San Antonio to unserved or underserved destinations. It is an acceptable industry practice for U.S. airports to provide air carriers incentives for the purpose of encouraging initial customer awareness of newly started routes and/or new entrant airline brands serving the market for the first time. The program is also consistent with the City's policy of encouraging air service.

#### **ALTERNATIVES:**

City Council could choose to not support the Air Service Incentive Program. However, by not offering marketing and support incentives for new non-stop routes, San Antonio International will be put at a competitive disadvantage with other US airports offering airlines incentives for new airlines or new non-stop or underserved routes.

#### **FISCAL IMPACT:**

Funding for marketing incentives for each year of the Program will be recommended as part of the annual operating budget for the Aviation Department. With the new program, the amount in the FY 2016 Operating and Maintenance Budget is \$600,000.00. The budget also reflects \$1,000,000.00 in rents and fee waivers. Budgets for the remaining fiscal years will be recommended as part of the annual fiscal budget.

#### **RECOMMENDATION:**

Staff recommends the authorization of the Air Service Incentive Program for the San Antonio International Airport.