# AGENDA REPORT

**Resolution:** Amendment to Domestic and International Air Service Marketing Incentive Program. **(Aviation)**

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|---|---|
| **MEETING DATE:** | 10/8/2015 |
| **AMOUNT:** | Varies Depending Upon New Air Service; Operating Expense |
| **PARTIES INVOLVED:** | Airlines Potentially Providing Domestic and International Passenger Air Service |
| **SUBMITTED BY:** | Kristi McKenney, Acting Director of Aviation |
| **APPROVED BY:** | J. Christopher Lytle, Executive Director |
| **ACTION TYPE:** | Resolution |

## EXECUTIVE SUMMARY

This action would update the Air Service Incentive Program authorized pursuant to Resolution No. 14-45. Specifically, (i) new definitions for “short-haul” and “medium-haul” flight segments will be incorporated into the Air Service Incentive Program, which will adjust the length of term and dollar amount of incentives offered by Oakland International Airport (“OAK”); (ii) dollar amounts for the Port’s cooperative advertising program will be adjusted; and, (iii) the list of domestic and international target cities will be enhanced.

## BACKGROUND

Resolution No. 14-45, adopted by the Board of Port Commissioners on May 22, 2014 enhanced, clarified, restated and refined certain terms and conditions of both (i) the Domestic Air Service Marketing Incentive Program authorized pursuant to Resolution Nos. 20228 and 11-114 (the “Domestic Incentive Program”), and (ii) the International Air Service Marketing Incentive Program authorized pursuant to Resolution Nos. 09029 and 09158 (the “International Incentive Program”), collectively referred to as the “Air Service Incentive Program”.

Providing financial incentives to airlines to increase the number of domestic and international flights and destinations is a key component of airports’ efforts to increase airline service and competition. Beginning in June 2000 with Resolution No. 20228, the Board has approved OAK providing domestic and international air service incentives, and based on feedback from airlines and an updated comparison of other airports' incentives, staff is proposing a limited update to OAK's current Air Service Incentive Program. Exhibit 2 is the proposed revised Air Service Incentive Program Overview with changes highlighted.

## ANALYSIS

**Flight Distance Incentives:** The Program, and related incentives and marketing, currently distinguishes distances of flights: "short-haul" is defined as any flight less than 1,250 miles, whereas "long-haul" includes all flights 1,250 miles or longer. In analyzing potential new destinations, it has become apparent that there are opportunities for very short flights that serve primarily as connections to OAK's existing flight schedule. Given the nature and volume of most of these types of services, in most cases, it is not reasonable that a very short-haul flight (e.g., to Fresno) should receive the same incentives as a flight approaching 1,250 miles (e.g., to Tucson). To resolve this issue, it is proposed to add an intermediary distance of "medium-haul" to the Program. The proposed new definitions are:

| Designation | Flight Distance |
|---|---|
| "Short-Haul" | Less than 250 Miles |
| "Medium-Haul" | 250 Miles to 1,250 Miles |
| "Long-Haul" | More than 1,250 Miles |

Incentives for Landing Fees would not be affected by the introduction of the short-haul definition; however, short-term waiver of office space, gate use and baggage charges, and overnight aircraft parking fees would be eliminated.

**Cooperative Advertising Program:** The addition of the short-haul flight definition also requires the reanalysis of Port-funded advertising expenses. As proposed, the Port's financial assistance for advertising would remain the same for medium-haul flights, but would be significantly reduced for the new short-haul flight definition.

**Target City List Modification:** The Agenda Report for Resolution No. 14-45 defines a Target City as (i) destinations unserved at OAK that have a high PDEW (passengers daily each way); (ii) destinations that are large airline hubs that will provide significantly improved, single-stop connectivity to other destinations; and, (iii) destinations unserved at OAK and also unserved at other Bay Area airports to provide non-stop service that will benefit from advances in aeronautical technology and new aircraft derivatives (Boeing 787, Boeing 737-MAX, Airbus A320-NEO, Airbus A350).

The list of Target Cities is shown on Exhibit 1 at Sections VII.E.4 and VII.E.5. Resolution No. 14-45 authorizes the Director of Aviation to modify the list as service and marketing needs change with competitive pressures. As information, the following markets have been added or expanded/clarified:

4. Domestic: Minneapolis/St. Paul; New York, including Newark (EWR), La Guardia (LGA), John F. Kennedy (JFK), Islip (ISP), Stewart International (SWF), and Westchester County(HPN); Reno/Tahoe; Tampa; and,

Washington, D.C. (including Dulles (IAD), Reagan National (DCA), and Baltimore (BWI).

5. International: Reykjavik and Shanghai.

## BUDGET & STAFFING

Despite the recommended waiver and reduction in fees, new air service provides a positive revenue stream during the waiver period based on increased collection of Passenger Facility Charges (PFCs), automobile parking and ground transportation fees and percentage rentals from Airport concessions. Marketing incentives for domestic routes are included in the airlines' annual rates and charges and are offset by additional concession revenues, which are credited to Terminal Rents and Landing Fees. Incentives for international routes are funded by other Port revenues and offset by additional parking and ground transportation fees and additional concession revenues, credited to the International Arrivals Building.

There will be no impact to staffing by the Board's approval of the revised Air Service Incentive Program.

## MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

## STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan

(http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf)

**Goal A: Create Sustainable Economic Growth for the Port and Beyond**

- Goal A: Objective 1: Maximize the use of existing assets.
- Goal A: Objective 3: Increase revenue, job creation and small business growth.
- Goal A: Objective 4: Pursue strategic partnerships at all levels: local, regional, national and international.

**Goal B: Maintain and Aggressively Grow Core Businesses**

- Goal B: Objective 1: Retain existing customers and tenants.
- Goal B: Objective 2: Market strategically and aggressively to attract new customers and tenants.
- Goal B: Objective 3: Price Port services to provide a highly competitive value.

- Goal B: Objective 4: Promote effective strategic communication with Port customers.
- Goal B: Objective 5: Enhance customer services

**LIVING WAGE**

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

**ENVIRONMENTAL**

The Port has determined that this action, approving the Incentive Programs, is statutorily exempt pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15273 (a). CEQA does not apply to the establishment, modification, structuring, restructuring, or approval rates, tolls, fares, and other charges by public agencies which the public agency finds are the purpose of: (1) Meeting operating expenses, including employee wage rates and fringe benefits; (2) Purchasing or leasing supplies, equipment, or materials; (3) Meeting financial reserve needs and requirements; (4) Obtaining funds for capital projects necessary to maintain service areas; or (5) Obtaining funds necessary to maintain such intra-city transfers as are authorized by the city charter.

It is anticipated that any new air service generated by the Board's adoption of the Incentive Programs will result in aircraft operations at OAK still significantly below the operations analyzed in the Airport Development Program (and below the peak experienced in 2007). Therefore, this project has also been determined to be categorically exempt pursuant to CEQA Guidelines Section 15301, Existing Facilities, which exempts the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination.

**GENERAL PLAN**

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

**OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)**

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

## OPTIONS

1. Approve the proposed update to the Air Service Incentive Program to (i) provide for new definitions for “short-haul” and “medium-haul” flight segments to be incorporated into the Air Service Incentive Program, which will adjust the length of term and dollar amount of incentives offered by Oakland International Airport, and (ii) adjust the dollar amounts for the Port’s cooperative advertising program.

2. Retain the existing Air Service Incentive Program. This option would allow very short haul flights to obtain substantial incentives that may exceed the overall value of the market.

## RECOMMENDATION

It is recommended that the Board approve a resolution to amend Resolution Nos. 14-45 and its attached Air Service Incentive Program Overview to (i) provide for new definitions for “short-haul” and “medium-haul” flight segments, and (ii) adjust the dollar amounts for the Port’s cooperative advertising program, subject to the Port Attorney’s review and approval as to form.

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Exhibit 1

# AIR SERVICE INCENTIVE PROGRAM OVERVIEW
## Oakland International Airport

This document summarizes the terms and conditions of the Oakland International Airport ("OAK" or "Airport") Domestic Air Service Marketing Incentive Program ("Domestic Incentive Program")[1] and International Air Service Marketing Incentive Program ("International Incentive Program")[2], collectively, the "Incentive Programs".

**I. Program Objective.** The Airport's air service Incentive Programs are designed to stimulate the growth of domestic and international passenger air service at OAK and lower the barriers to commencing and marketing new air service.

**II. Program Period.** The domestic and international Incentive Programs will be available from May 1, 2014 through June 30, 2017 (the "Program Period") to all airlines that meet the program requirements. OAK may at its sole discretion shorten or suspend the Program Period. Following this Program Period, OAK may elect to continue offering the Incentive Programs, subject to approval by the Board of Port Commissioners.

**III. Application.** Airlines seeking to participate in the Incentive Programs, ("Applicant Airline") must complete the Air Service Incentive Program Application Form within thirty (30) days of commencement of the qualifying air service. The Applicant Airline will be advised in writing by the Port within thirty (30) days of receipt of the Application if the Application has been approved for the requested incentives.

**IV. Domestic Incentive Program Requirements.** To be eligible for the Domestic Incentive Program, the new air service commenced must be:

**A.** New air service to any short-haul, ~~(less than 1,250 miles)~~ medium-haul or long-haul ~~(more than 1,250 miles)~~ destination within the United States that has not been served by the Applicant Airline within the last 12 months. The incentives are available to both incumbent and new entrant airlines regardless of whether the new destination is already served from OAK by another airline, except where noted in the chart below. The definitions are as follows:

| Designation | Flight Distance |
|---|---|
| "Short-Haul" | Less than 250 Miles |
| "Medium-Haul" | 250 Miles to 1,250 Miles |
| "Long-Haul" | More than 1,250 Miles |

**B.** Regularly-scheduled (not charter) service.

[1] The Domestic Incentive Program was authorized pursuant to Board Resolution Nos. 20228, 11-114 and [if approved by the Board, add current Res. reflecting changes].

[2] The International Incentive Program was authorized pursuant to Board Resolution Nos. 09029, 09158 and [if approved by the Board, add current Res. reflecting changes].

**C.** The routing must be non-stop (not a "through" destination).

**D.** Year-round or new seasonal service[3]. Seasonal service is not eligible for incentives if the route was served by the Applicant Airline any time during the preceding two years.

**E.** Frequency of 3 or more flights per week (said flights are not required to be to the same destination).

**F.** If less than 3 flights per week, incentives will be prorated[4].

Provided that these eligibility criteria are met, the following fees will be waived or reduced:

| Item | Duration | Description |
|---|---|---|
| Landing Fees | Three Months for New Short-Haul and Medium-Haul Routes ~~of less than 1,250 Miles~~ | Waived for each new short-haul or medium-haul destination. |
| | Six Months for New Long-Haul Routes ~~of 1,250 Miles or More~~ | Waived for each new long-haul destination. |

[3] "Seasonal Service" shall mean any service that upon announcement: (a) is not operated on a published schedule pattern within every month of the year (January through December) and (b) is operated for more than 90 days but less than 365 days in one calendar year.

[4] For example, Airline X applies to operate two flights per week between OAK and Tucson (less than 1,250 miles away); Airline X would qualify for two-thirds of the short-haul domestic incentives, or two (2) months' of landing fees, office space rental, gate use charges, baggage charges and RON fees.

| Item | Duration | Description |
|---|---|---|
| Office Space Rental[5], Preferential or Secondary Gate Use Charge, and Baggage Charges | Three Months for New Medium-Haul Routes ~~of less than 1,250 Miles~~ | Cumulative for each new destination added during Program Period; if a new ~~short~~ medium-haul or long-haul destination is added during Program Period, then the corresponding amount of time (three or six months) is added and fees waived. If any new destination is canceled, waiver is rescinded accordingly. |
| | Six Months for New Long-Haul Routes ~~of 1,250 Miles or More~~ | Cumulative for each new destination added during Program Period; if a new ~~short~~ medium-haul or long-haul destination is added during Program Period, then the corresponding amount of time (three or six months) is added and fees waived. If any new destination is canceled, waiver is rescinded accordingly. |
| Aircraft Parking (including Remain Over Night – "RON") Fees | Three Months for New Medium-Haul Routes ~~of less than 1,250 Miles~~ | Waived for each new ~~short~~ medium-haul destination. |
| | Six Months for New Long-Haul Routes ~~of 1,250 Miles or More~~ | Waived for each new long-haul destination. |

**V. International Incentive Program Requirements.** To be eligible for the program, the new air service commenced must be:

[5] Office Space Rental waiver available only to new airline entrants and only for new service to destinations not currently served by any other airline. This incentive is limited to a reasonable amount of office space in the Terminal Complex which is vacant at the time of airline's request. For an airline providing a minimum of seven (7) flights per week to any destination and up to three (3) daily domestic flights, "reasonable" is defined as (i) 750± square feet of office space, plus (ii) if airline operates a maintenance or flight crew base at the Airport, airline will be provided with an additional 500± square feet of office space. If airline operates more than three (3) daily domestic flights, additional space rental may be waived subject to the Board's review and approval.

**A.** New air service to any international destination that has not been served by the Applicant Airline within the last 12 months. The incentives are available to both incumbent and new entrant airlines regardless of whether a destination is already being served by another airline from OAK, except as noted in the chart below.

**B.** Regularly-scheduled (not charter) service.

**C.** The routing must be non-stop; however, a "through" destination will be eligible for incentives if the final destination is otherwise unserved and technically unreachable on a nonstop basis. Examples include OAK-NRT-KUL or OAK-TPE-SIN. Incentives are also available for routes requiring a technical stop enrooted either on a planned or unplanned basis.

**D.** Year-round or new seasonal service. Seasonal service is not eligible for incentives if the route was served by the Applicant Airline any time during the preceding two years.

**E.** Frequency of one (1) or more flights per week (said flights are not required to be to the same international destination).

Provided that these eligibility criteria are met, the following fees will be waived or reduced:

| Item | Duration | Description |
|---|---|---|
| Landing Fees | First Six Months | Waived for each new destination |
| Office Space Rental[6] and International Flight Turn Charge (includes use of common use ticket counters, hold room, boarding bridge, baggage make-up). | Six Months | Cumulative waivers for each new destination added during Program Period; e.g., two destinations = one year rental waiver. If destination is canceled, waiver is rescinded. International flight Per Turn charges for new destinations also waived for six months. |
| Aircraft Parking (including Remain Over Night – "RON") Fees | First Six Months | Waived for each new destination. |

[6] Office Space Rental waiver applies only to new airline entrants. The incentive is limited to a reasonable amount of office space in a location in Terminal 1 which is vacant at the time of airline's request. For an airline providing a minimum of two (2) flights per week and up to five (5) daily international flights, "reasonable" is defined as (i) 750± square feet of office space, plus (ii) if airline operates a maintenance or flight crew base at the Airport, airline will be provided with an additional 500± square feet of office space.

| | | |
|---|---|---|
| International Arrivals Building (IAB)[7] | First Six Months | Current charge is \$10 per passenger. These fees will be waived for the first six months for each new destination. |
| IAB – Multiple Flights | Up to 24 months | After the initial six-month waiver period, if airline operates at least six daily flights, charge will be \$5 per passenger for each new destination. |

**VI. Other Charges.** All other charges not specified in the domestic and international Incentive Programs (i.e., PFCs, ID badging, employee parking, etc.) are required to be paid by the participating Applicant Airline.

**VII. Cooperative Advertising Program:** The Airport will fund advertising expenses for new daily air service that meets the above eligibility criteria (pro-rated if less than daily service).

**A.** Any airline commencing eligible new service will qualify for the Cooperative Advertising Program regardless of whether the destination is already being served from OAK by another airline. The cooperative advertising marketing funds shall be solely dedicated to supporting the qualifying new service and the Airport. The Airport must be featured, with prominence substantially similar to the participating airline, in the promotional materials. The marketing program design and implementation shall be completed in cooperation with and subject to the approval of the Director of Aviation.

**B.** Domestic Air Service: ~~\$100,000~~

1. Short-Haul: \$10,000
2. Medium-Haul or Long-Haul: \$100,000

**C.** Domestic Target City Air Service: ~~\$200,000.~~

1. Short-Haul: \$100,000
2. Medium-Haul or Long-Haul: \$200,000

**D.** International Air Service:

1. Canada and Mexico: \$100,000.
2. Canada & Mexico Target City: \$200,000.
3. International (excluding Canada & Mexico): \$200,000.

[7] International flights that are pre-cleared by U. S. Customs and Immigration in a foreign country arrive at a domestic gate and do not use the Airport's IAB; however, such airlines are charged the applicable per-passenger IAB fee. The per-passenger IAB fee would be waived under International Incentive Program.

4. International Target City Air Service: $300,000.

E. Target City Definition: A Target City is defined as follows and is targeted because one or more of the following characteristics are present:

1. Destinations unserved at OAK that have high PDEW (passengers daily each way) according to DOT Form 41 and Airline Reporting Corporation (ARC) statistics, or which had high usage when served nonstop previously from OAK.

2. Destinations unserved at that are large airline hubs that will provide OAK originating passengers with significantly improved, single stop connectivity to other destinations.

3. Destinations unserved at OAK and also unserved at other Bay Area airports that are now, or will soon be, candidates for new nonstop service as a result of advances in aeronautical technology such as those offered in the Boeing 787, Boeing 737-MAX, Airbus A320-NEO and Airbus A350 programs.

During the Program Period, the following new destinations (any airport within the city market) will be considered as a "Target City":

4. Domestic: Atlanta, Boston, Charlotte, Fort Lauderdale, Miami, Minneapolis/St. Paul, New York (includes EWR, LGA, JFK, ISP, SWF, HPN), Orlando, Philadelphia, Reno/Tahoe, Tampa and Washington, D.C. (includes IAD, DCA, BWI)

5. International: Abu Dhabi, Addis Ababa, Amsterdam, Athens, Auckland, Barcelona, Beijing, Berlin, Bogota, Brisbane, Calgary, Cancun, Cape Town, Dakar, Doha, Dubai, Dublin, Edmonton, Frankfurt, Hong Kong, Johannesburg, Kuala Lumpur, Lagos, Lima, London, Madrid, Manila, Melbourne, Milan, Montreal, Moscow, Nagoya, Nairobi, Osaka, Panama City, Paris, Reykjavik, Rio de Janeiro, Rome, San Salvador, Santiago, Santo Domingo, Sao Paulo, Seoul, Shanghai, Singapore, Tahiti, Taipei, Tokyo, Toronto and Vancouver.

6. This list may be modified at any time by the Director of Aviation.

**VIII. Amendments to *Airline Operating Agreement*.** To implement the incentive program, the Port of Oakland and participating airlines will need to amend the terms and conditions of the standard form *Airline Operating Agreement*, and if space is involved, the *Annex "A" Space/Use Permit*.