

MS *MS*

BOARD OF PORT COMMISSIONERS CITY OF OAKLAND

RESOLUTION AUTHORIZING AMENDMENT OF THE DOMESTIC AND INTERNATIONAL AIR SERVICE MARKETING INCENTIVE PROGRAM AT OAKLAND INTERNATIONAL AIRPORT.

WHEREAS, the Board of Port Commissioners ("Board") has reviewed and evaluated Agenda Report Item 6.1 dated November 29, 2018 ("Agenda Report") and related agenda materials, has received the expert testimony of Port of Oakland ("Port") staff, and has provided opportunities for and taken public comment; and

WHEREAS, by Resolution No. 14-45, adopted by the Board on May 22, 2014, the Board authorized the amendment and restatement of the Domestic and International Air Service Marketing Incentive Program (the "Incentive Program") to encourage development of new passenger service at Oakland International Airport ("Airport"); and

WHEREAS, by Resolution No. 15-118, adopted by the Board on October 8, 2015, and Resolution No. 15-160, adopted by the Board on December 17, 2015, the Board authorized certain amendments to the Incentive Program to further refine certain terms and conditions, to extend the term of the Incentive Program to December 31, 2019, to provide for extended lengths of term for fee waivers for international "Target City" destinations, and to reduce the number of weekly flights eligible to participate in the full value of the cooperative advertising program for international "Target City" destinations; now, therefore, be it

RESOLVED, that the Board hereby approves the amendment of the Incentive Program to (i) extend the term of the Incentive Program for two additional years through December 31, 2021, (ii) restrict "Qualifying Service" to unserved destinations, unless that Qualifying Service is a Target City, (iii) include scheduled charter as air service that qualifies for incentives, (iv) update the types of charges and fees to be waived and to be consistent with the Aviation Rates and Charges Ordinance, (v) adjust the per-passenger fee for international arrivals based on the number of seats offered by each airline, (vi) clarify the qualifications for airlines to participate in the Cooperative Advertising Program, (vii) extend the Port's advertising support for International Target Cities from the current one year to two years, and (viii) revise the list of Target Cities, as outlined in the Agenda Report and in the attached Air Service Incentive Program Overview; and be it

FURTHER RESOLVED, that the Director of Aviation is authorized to enter into Cooperating Advertising Agreements, and procurement agreements to implement the Incentive Program, as amended; and be it

FURTHER RESOLVED, that the Director of Aviation, in consultation with the Port Attorney, is authorized to revise the Incentive Program as may be necessary from time to time to comply with requirements of Federal law and regulation; and be it

FURTHER RESOLVED, that this resolution is not evidence of and does not create or constitute (a) a contract or lease, entitlement or property interest, or (b) any obligation or liability on the part of the Board or any officer or employee of the Board. This resolution approves and authorizes the execution of agreement(s) in accordance with the terms of this resolution. Unless and until separate written agreement(s) are duly executed on behalf of the Board as authorized by this resolution, is signed and approved as to form and legality by the Port Attorney, and is delivered to the other contracting party, there shall be no valid or effective agreement(s); and be it

FURTHER RESOLVED, that in acting upon the matters contained herein, the Board has exercised its independent judgment based on substantial evidence in the record and adopts and relies upon the facts, data, analysis, and findings set forth in the Agenda Report and in related materials and in testimony received.

ATTACHMENT

AIR SERVICE INCENTIVE PROGRAM OVERVIEW Oakland International Airport December 1, 2018

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 December 31, 2021 (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 and sign the Air Service Incentive Program Application Form within thirty (30) days of commencement of each 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 ("Qualifying Service") commenced must be:
 - A. Qualifying Service to any short-haul, medium-haul or long-haul destination within the United States that has not been served by the Applicant Airline within the last twelve (12) months. The incentives are available to both incumbent and new entrant airlines. Qualifying Service includes nonstop service to any unserved destination, or nonstop service to Target Cities that have existing nonstop service. Service to non-Target Cities that have existing nonstop service from OAK does not qualify.
 - B. The definitions are as follows:

¹ The Domestic Incentive Program was authorized pursuant to Board Resolution Nos. 20228, 11-114 and 14-45.

² The International Incentive Program was authorized pursuant to Board Resolution Nos. 09029, 09158 and 14-45.

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

- C. Scheduled passenger or scheduled charter service available to the general public.
- D. Year-round or new seasonal service³. Seasonal service is not eligible for incentives if the route had scheduled service from 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), as long as each destination meets above requirements in Section IV.A.).
- F. If less than 3 flights per week, incentives will be prorated⁴.

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

Item	Duration	Description
Landing Fees	Three (3) Months for New Short-Haul and Medium-Haul Routes	Waived for each new short-haul or medium-haul destination.
	Six (6) Months for New Long-Haul Routes	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 ninety (90) days but less than 365 days in one calendar year.

⁴ For example, a new entrant, Airline X applies to operate two flights per week between OAK and Reno (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, Preferential Holdroom, Baggage Claim Monthly Charges, Secondary Use Fee or Common Use Fee ⁵	Three (3) Months for New Medium-Haul Routes	Cumulative for each new destination added during Program Period; if a new medium-haul or long-haul destination is added during Program Period, then the corresponding amount of time (three or six months) is added and eligible fees waived. If any new destination is canceled, waiver is rescinded accordingly. Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers are limited to a total of twelve (12) months and for new entrants only. Secondary Use Fee and Common Use Fee waivers are limited to a total of twenty-four (24) months, and are available to incumbent airlines and new entrant airlines.

⁵ Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers are 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 that the new entrant airline requests to occupy 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.

Item	Duration	Description
	Six (6) Months for New Long-Haul Routes	Cumulative for each new destination added during Program Period; if a new medium-haul or long-haul destination is added during Program Period, then the corresponding amount of time (three or six months) is added and eligible fees waived. If any new destination is canceled, waiver is rescinded accordingly. Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers are limited to a total of twelve (12) months and for new entrants only. Secondary Use Fee and Common Use Fee waivers are limited to a total of twenty-four (24) months, and are available to incumbent airlines and new entrant airlines.
Aircraft Parking (including Remain Over Night – "RON") Fee	Three (3) Months for New Medium-Haul Routes	Waived for each new medium-haul destination.
	Six (6) Months for New Long-Haul Routes	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:

- A.** Qualifying Service to any international destination that has not had scheduled nonstop service from the Applicant Airline within the last twelve (12) months. The incentives are available to both incumbent and new entrant airlines. Qualifying service includes nonstop service to any unserved destination, or nonstop to Target Cities that have existing nonstop service. Service to non-Target cities that have existing nonstop service from OAK does not qualify.
- B.** Scheduled passenger or scheduled charter service available to the general public.

C. Year-round or new seasonal service. Seasonal service is not eligible for incentives if the route had scheduled nonstop service from the Applicant Airline any time during the preceding two years.

D. Frequency of one (1) or more flights per week (said flights are not required to be to the same international destination, as long as each destination meets above requirements in Section IV.A.).

Provided that these eligibility criteria are met, the following fees will be waived or reduced, depending upon if the new destination has been designated as a "Target City" by the Port:

NON-TARGET CITY INTERNATIONAL INCENTIVES		
Item	Duration	Description
Landing Fees	First Six (6) Months	Waived for each new destination
Office Space Rental, Preferential Holdroom, Baggage Claim Monthly Charge, ⁶ Secondary Use Fee or Common Use Fee (includes use of common use ticket counters, hold room, boarding bridge, baggage make-up).	Six (6) 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. Common Use Fees charges for new destinations also waived for (6) six months. Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers are limited to a total of twelve (12) months. The remaining waivers are limited to a total of twenty-four (24) months.
Aircraft Parking (including Remain Over Night – "RON") Fees	First Six (6) Months	Waived for each new destination.

⁶ Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers apply 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 (6) Months	Current charge is \$10 per passenger. These fees will be waived for the first six months for each new destination.												
Pre-Cleared International Arriving Flights ⁷	First Six (6) Months	Common Use Fees and Baggage Claim Monthly Charges will be waived for the first six (6) months for each new destination. Baggage Claim Monthly Charges will be waived only for new entrants.												
IAB – Multiple Flights Discount to the FIS Facility Fee is based on the number of international arrival seats and not the number of international flight arrivals.	<p>After the initial six-month waiver period, if airline averages the following numbers of international arriving seats per week, these discounts will apply for an additional twelve (12)-month period (maximum of eighteen (18) months):</p> <table> <tr> <th>Weekly Seats⁸</th><th>FY2018-19 FIS Fee</th><th>% Discount*</th></tr> <tr> <td>5,775 – 7,699</td><td>\$10.00</td><td>-17%</td></tr> <tr> <td>7,700 – 9,624</td><td>8.00</td><td>-33%</td></tr> <tr> <td>9,625 or More</td><td>6.00</td><td>-50%</td></tr> </table> <p>*Rounded up to the next higher full dollar.</p>		Weekly Seats ⁸	FY2018-19 FIS Fee	% Discount*	5,775 – 7,699	\$10.00	-17%	7,700 – 9,624	8.00	-33%	9,625 or More	6.00	-50%
Weekly Seats ⁸	FY2018-19 FIS Fee	% Discount*												
5,775 – 7,699	\$10.00	-17%												
7,700 – 9,624	8.00	-33%												
9,625 or More	6.00	-50%												

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. In addition, the number of seats on a pre-cleared international arriving flight will be applied to the calculation of Weekly Seats leading to the Baggage Claim Monthly Charge.

⁸ The seat thresholds are calculated on a weekly basis; Aviation Marketing will be required to monitor levels of qualifying weekly service/seats, confirm thresholds are reached and maintained, and convert to the appropriate monthly fee waiver. Thereafter, Aviation Marketing will advise Port Finance so that activity can be properly accounted.

TARGET CITY INTERNATIONAL INCENTIVES		
Item	Duration	Description
Landing Fees	First Twelve (12) Months	Waived for each new Target City destination.
	Second Twelve Months	50% Waived for each new Target City destination.
Office Space Rental, Preferential Holdroom, Baggage Claim Monthly Charge, ⁹ Secondary Use Fee or Common Use Fee (includes use of common use ticket counters, hold room, boarding bridge, baggage make-up).	First Twelve (12) Months per each new Target City destination	Office Space Rental, Preferential Holdroom, Baggage Claim Monthly Charge waivers are limited to twelve (12) months. If Target City destination is canceled, waiver is rescinded. Secondary Use Fee or Common Use Fee for each new Target City destinations also waived for twelve (12) months.
Aircraft Parking (including Remain Over Night – “RON”) Fees	First Twelve (12) Months	Waived for each new Target City destination.
International Arrivals Building (IAB)	First Twelve (12) Months	Current FIS Facility Fee is \$10 per passenger. The FIS Facility Fee will be waived for the first twelve (12) months for each new Target City destination.
Pre-Cleared International Arriving Flights ⁷	First Twelve (12) Months	Common Use Fees and Baggage Claim Monthly Charges will be waived for the first twelve (12) months for each new destination. Baggage Claim Monthly Charges will be waived for new airline entrants only.

⁹ Office Space Rental, Preferential Holdroom and Baggage Claim Monthly Charge waivers apply 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.

IAB – Multiple Flights Discount to the FIS Facility Fee is based on the number of international arrival seats vs. the number of international flight arrivals.	After the initial twelve-month waiver period, if airline averages the following numbers of international arriving seats per week, these discounts will apply for an additional twelve (12)-month period (maximum twenty-four (24) months):		
	Weekly Seats ⁸	FY2018-19 FIS Fee	% Discount*
	5,775 – 7,699	\$10.00	-17%
	7,700 – 9,624	8.00	-33%
	9,625 or More	6.00	-50%
	*Rounded up to the next higher full dollar.		

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. For non-Target City destinations and domestic Target City destinations, amounts listed below will be pro-rated if less than daily service. For international Target City destinations, the full amount of cooperative advertising dollars will be eligible for international Target City destinations for less than daily service, provided that airline operates a minimum of two flights per week to each international Target City destination.

A. Qualifying service includes nonstop service to any unserved destination, or nonstop service to Target Cities that have existing nonstop service. Service to non-Target cities that have existing nonstop service from OAK does not qualify.

B. 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 Applicant Airline, in the promotional materials. The marketing program design and implementation is subject to the approval of the Director of Aviation.

C. Domestic Air Service:

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

D. Domestic Target City Air Service:

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

E. International Air Service:

1. Canada and Mexico: \$100,000.
2. Canada & Mexico Target City: \$200,000.
3. International (excluding Canada & Mexico): \$200,000.
4. International Target City (excluding Canada and Mexico): \$300,000 in first twelve (12) months of service, and an additional \$150,000 in months 13 through 24.

F. 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. During the Program Period, the following destinations will be considered as "Target Cities":

Domestic: Atlanta, Boston, Charlotte, Detroit, Fort Lauderdale, Los Angeles, Miami, Minneapolis/St. Paul, New York (EWR, LGA, JFK), Orlando, Philadelphia, San Diego, Tampa and Washington, D.C. (includes IAD, DCA, BWI)

Canada and Mexico: Calgary, Cancun, Edmonton, Guadalajara, Mexico City, Montreal, Toronto, Vancouver

International: Abu Dhabi, Addis Ababa, Amsterdam, Athens, Auckland, Beijing, Berlin, Bogota, Brisbane, Buenos Aires, Cancun, Cape Town, Dakar, Doha, Dubai, Dublin, Frankfurt, Hong Kong, Johannesburg, Kuala Lumpur, Lagos, Lima, London (LHR), Madrid, Manila, Melbourne, Milan, Moscow, Nagoya, Nairobi, Osaka, Panama City, Paris, Reykjavik, Rio de Janeiro, San Salvador, Santiago, Santo Domingo, Sao Paulo, Seoul, Shanghai, Singapore, Tahiti, Taipei, Tokyo NRT, HND), and Vienna.

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

VIII. Cooperative Advertising Agreement: To implement the Cooperative Advertising Program, the Applicant Airline is required to execute the Airport's Cooperative Advertising Agreement prior to but no later than concurrent with its first Application. Failure to adhere to the terms and conditions of the Cooperative Advertising Agreement can result in disqualification of the applicable route for cooperative advertising funds. Cooperative advertising funds are available for disbursement prior to the commencement of qualifying new service. In the event, however, that

the Applicant Airline does not commence such qualifying new service, the Applicant Airline must promptly reimburse the Port for any cooperative advertising funds spent by the Airport. In general, the Port will contract directly with the Applicant Airline's advertising agency and/or media vendor to place the advertisements. In the limited circumstances described in the Cooperative Advertising Agreement where the Port may reimburse the Applicant Airline directly, Applicant Airline must provide all required documentation within one-hundred twenty (120) days of advertising execution. If past such one-hundred twenty (120) day period, the Port's obligation to reimburse the Applicant Airline is subject to rescission by the Port, in the Port's sole discretion.

- IX. **Reporting.** Applicant Airline shall provide to the Airport any information necessary or relevant for the Airport to administer these Incentive Programs. Failure to provide such information may result in disqualification of the incentive.
- X. **Federal Obligations:** Any incentives offered under these Incentive Programs are subordinate to the Airport's federal obligations, including without limitation grant assurances made by the Airport to the Federal Aviation Administration, and the Port may amend or terminate this Incentive Program to comply with those obligations.