

Memorandum

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

**SUBJECT: AIR SERVICE SUPPORT
PROGRAM FOR ZIPAIR TOKYO**

DATE: September 29, 2022

Approved



Date

10/14/22

RECOMMENDATION

- (a) Conduct a Public Hearing pursuant to California Government Code Section 53083 regarding application of the City's Air Service Support Program, as authorized by the Federal Aviation Administration, to ZIPAIR Tokyo.
- (b) Adopt a resolution authorizing the Director of Aviation, or the Director's designee, to provide the City's Air Service Support Program to new air carrier service as outlined in the table below:

ZIPAIR Tokyo Estimated Impact

Route Impact Details	ZIPAIR Tokyo
Airport Served	Tokyo Narita
Frequency	Up to Daily
Period of Support	18 Months
Total Airport Fees To Be Collected	\$4,148,332
Passenger Spend and Benefits	\$549,822
Total Revenue to SJC	\$4,698,154
Support Program Fee Waivers	\$1,673,031
Dedicated Marketing Funds	\$600,000
Total Fee Waivers and Marketing	\$2,273,031
Net Impact to SJC	\$2,425,123

OUTCOME

Norman Y. Mineta San José International Airport's (SJC or Airport) support program is envisioned to help airlines offset high initial risks and costs to start new service by waiving landing fees and/or providing marketing support where applicable. Making the support program available to airlines will help them during the most difficult time of the new service launches from San José to their respective destinations. The result will be a higher tolerance for initial route startup risks by airlines, while increasing chances to gain long-term maturity and associated profitability. The long-term success of these important new routes will benefit the Airport as well as the City by increasing revenues for both entities and providing additional travel options for our community.

The detailed table shown above and the summary below highlight the estimated positive impact of the new route on Airport finances. Airport support amounts, consisting of initial period fee waivers and dedicated marketing funds, are exceeded by other airport fees not subject to waivers and net airport revenues from car rentals, concessions, parking, passenger facility charges, and other activities. The result is positive incremental revenue for the Airport above the waivers and marketing funds.

Although SJC witnessed record levels of growth over the four calendar years prior to the outbreak of the Covid-19 pandemic, it is important to continue working with a wide range of airlines to recover and further expand the overall route network. While there is no guarantee of success, the addition of a new international low-cost carrier provides our community and businesses new options for travel.

As a low-cost subsidiary of Japan Airlines, ZIPAIR Tokyo targets a more leisure travel customer base that is both different and complementary to global network carriers such as ANA, British Airways, and Delta Air Lines. ZIPAIR recognizes the need to serve markets that have leisure travel components, particularly with domestic and international business travel remaining below levels of prior years.

The desired outcome of this new service will be for ZIPAIR to achieve success, our community to benefit from additional competition and international travel options, and the Airport to realize a significant positive net impact as estimated below.

ZIPAIR Tokyo Estimated Impact

Route Impact Details	ZIPAIR Tokyo
Total Revenue to SJC	\$4,698,154
Total Fee Waivers and Marketing	\$2,273,031
Net Impact to SJC	\$2,425,123

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 travelers have clearly expressed their strong desire to the Airport for improved access between San José and key domestic and international cities, and SJC remains without ANA's flights to Tokyo since March 2020.

From the program's beginning in 2006, the SJC Air Service Support Program has continued to evolve in consideration of changes in the industry as well as competitive dynamics. In addition to the many new routes launched from SJC in the years prior to the pandemic, the introduction of the new qualifying route described in this memorandum continues to represent a strong endorsement of our market. This route complements SJC's existing airline network through enhanced competition and additional options for both local travelers and visitors alike.

Airports similar in size and route network breadth to SJC also have fee waivers and marketing funds available for airlines serving both domestic and international destinations. However, SJC is also competing in a larger arena with much bigger markets as well as aggressive initiatives and/or outright stakeholder-backed subsidies:

- A 2016 survey of 25 U.S. airports including the airline hub cities of Denver, Houston, Detroit, and Phoenix confirmed that all 25 had air service incentive/support programs.
- A 2020 Airports Council International survey further confirmed that 93% of its member airports had incentive programs.
- Los Angeles International Airport launched a revised, multi-million-dollar incentive program for domestic and international routes to expedite the airport's recovery from the impact of the Covid-19 pandemic.
- Pittsburgh International Airport has a multi-million-dollar program to support new airline service in addition to waivers of fees.
- Among the high percentage of airports that offer incentive/support program are Oakland International, Austin-Bergstrom International, and Philadelphia International.
- Mid-sized airports including Indianapolis International and San Antonio International have also recently strengthened their support programs.
- San Francisco International Airport, despite its position as one of the largest trans-Pacific hubs, has successfully attracted multiple low-cost carriers with the benefit of more aggressive airline cost reductions.

This request to apply the Air Service Support Program to the qualified new route outlined in this memorandum is consistent with prior City Council approvals for multiple new routes in 2016, 2017, 2018, and 2019.

ANALYSIS

Air Service Support Program

The core terms of the Air Service Support Program are outlined in the summary table below. Additional details follow the summary table:

Service	Landing Fee Waiver	Ticket Counter & Gate Fees Waiver	Marketing Funds
New Short-Haul Domestic	100% for 12 Months	n/a	Up to \$25,000
New or Added Long-Haul Domestic	100% for 18 Months	n/a	Up to \$75,000
New International Within North America	100% for 18 Months	n/a	Up to \$100,000
New International Outside North America	100% for 18 Months	n/a	Up to \$500,000
New Entrant Carrier (not previously served SJC)	As Above	100% for 12 Months	As Above + Up to \$100,000

Airlines need to apply for the support program and work with SJC staff to coordinate fee waivers and marketing funds. Details of each qualifying service are described below:

New Short-Haul Domestic Destinations

- Short-haul domestic destination defined as within 1,250 mile radius of SJC
- 100% waiver of landing fees for up to 12 months for new destinations

New or Added Long-Haul Domestic Destinations

- Long-haul domestic destination defined as more than 1,250 miles from SJC
- 100% waiver of landing fees for up to 18 months for new destinations even if currently served by another carrier or for any added frequency if currently served by the carrier that is adding service

New International Destinations Within North America

- 100% waiver of landing fees for up to 18 months for new destinations

New International Destinations Outside North America

- 100% waiver of landing fees for up to 18 months of service

International Seasonal Service

- Seasonal schedule must be declared at the start of service
- 100% waiver of landing fees for the duration of the first year of seasonal service
- If seasonal service returns as year-round service, the start date of the full support program will coincide with the launch of the first seasonal service

Marketing Funds

- Marketing Introduction Program available to all new destinations – such resources may include on-airport messaging, website announcement, external newsletter announcement, public relations assistance, and community/business introductions
- Up to an additional \$25,000 in marketing funds for new short-haul U.S. destinations without airline match requirement
- Up to an additional \$75,000 marketing funds for any new or additional frequencies to long-haul U.S. domestic destinations without airline match requirement
- Up to an additional \$100,000 marketing funds for new international destinations within North America without airline match requirement
- Up to \$500,000 funds for any new international destination outside of North America to be spent within the first two years of operation (pro-rated for seasonal service) without airline match requirement
- All marketing funds must be used to promote the specific route to SJC
- An airline's use of marketing funds is subject to approval by Airport staff and are treated as a reimbursement up to the authorized amount

New Entrant Carrier

- An airline that has not previously served SJC and meets the program's requirements will qualify for ticket counter and boarding gate fee waivers for a period of 12 months and up to an additional \$100,000 in dedicated marketing funds. These fee waivers and marketing funds are to be in addition to standard support program benefits for the qualifying service.

Multiple Low-Frequency Routes

- At the discretion of the Director of Aviation, applicable landing fee waivers and marketing funds not to exceed \$100,000 may be awarded to an airline that introduces multiple low-frequency routes within a twelve-month period, subject to City appropriation of funds.

Snap-back Invoicing Policy

- The Director of Aviation will have the authority in extenuating circumstances to remove “snap-back” invoicing of landing and terminal fees if service is cancelled within the minimum qualifying period (12 consecutive months or four consecutive months for international seasonal service).

Additional Frequency Policy

- The Director of Aviation will have the authority to determine application of support funds for additional frequencies on existing routes.

Minimum Flight Requirements

- Minimum requirements to be eligible for support program: three weekly round trips for 12 consecutive months or four consecutive months for international seasonal service.

Recommended Support

The new airline and route outlined in this memorandum represents an optimistic outlook toward market expansion at a time that has seen international travel recovery fall far behind domestic levels. ZIPAIR Tokyo will offer a new product to a complementary leisure customer base in the important Japanese market.

City Council support for this qualifying route by ZIPAIR Tokyo is recommended.

ZIPAIR Tokyo Estimated Impact

Route Impact Details	ZIPAIR Tokyo
Airport Served	Tokyo Narita
Frequency	Up to Daily
Support Program Fee Waivers	\$1,673,031
Dedicated Marketing Funds	\$600,000
Total Fee Waivers and Marketing	\$2,273,031

Landing fees are waived at 100% for 18 months, gate, and ticket counter fees for 12 months, and marketing funds to promote this specific route to SJC up to the stated limits can be spent at the carrier’s discretion with the coordination and approval of SJC staff.

CONCLUSION

SJC dramatically increased its ability to serve the City's business and leisure travelers through several consecutive years of air service expansion prior to the pandemic's impact on global travel. To remain competitive in the quest for new or expanded airline flights, City Council has consistently endorsed the Airport's Air Service Support Program designed to help new services become sustainable.

The Airport's program, consistent with Federal Aviation Administration's policy, is not a subsidy to any airline, and remains revenue positive during temporary fee waiver/marketing periods due to the ongoing collection of non-waived fees such as offices, baggage space, and other exclusive use space rents. Other positive revenue generation sources related to the flights include passenger facility charges, customer facility charges, and revenues from concessions, parking, and car rentals. The program waives future fees and does not reduce current revenues or place added costs on others. From a fiscal perspective, however, the existing program continues to stipulate that any award of marketing dollars remains subject to the City Council's overall allocation of budgeted funds.

ZIPAIR Tokyo's entry into our market is expected to generate net positive results to the Airport and broader economic impact to the City. An airline that meets its route profitability objectives in the years beyond the initial launch and fee waiver period will continue to generate longer-term benefits to both the Airport and the community.

ZIPAIR Tokyo's Estimated Impact

Route Impact Details	ZIPAIR Tokyo
Net Impact to SJC	\$2,425,123
Annual Economic Impact Estimate	\$30,290,666

Although the support program used by SJC cannot guarantee each airline's profitability on new flights due to many financial and competitive factors, City Council's endorsement of this program and its benefits to the airline presented in this memorandum clearly reflects a commitment to serving the needs of our community.

EVALUATION AND FOLLOW-UP

Airport staff, in accordance with the Air Service Support Program, will monitor the number of flights to the specified destinations supported by the program to ensure that minimum service levels are met and adherence to the program specifications is maintained throughout the application period of the program.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative #1: City Council may choose not to approve the application of the Air Service Support Program for the qualifying route outlined in this memorandum.

Pros: None.

Cons: If City Council does not approve application of this program, chances of financial success of the routes will be put in jeopardy. The airline might choose not to operate the service altogether, as other airports become better options for the allocation of aircraft. The support program is designed to enhance the ability to attract and support new routes to SJC to benefit the Airport and the City.

Reason for not recommending: International airline service carries a high profile and speaks to the City's global reach. The new flight being reviewed in this memorandum will be an important element of SJC's overall route network. Failure to offer support during the initial launch periods of service is contrary to similar competitive programs across the industry and would signal to our airlines that the City and SJC are not proactive partners fostering expansion. Without these and other prospective new services, SJC's revenue growth would be jeopardized and the economic impacts to the community would not take place.

PUBLIC OUTREACH

This memorandum will be posted on both the Airport's website and on the City Council's Agenda website for the October 25, 2022 City Council meeting. The October 25, 2022 City Council meeting will serve as the public hearing, as required pursuant to California Government Code Section 53083 and as further described in the Fiscal/Policy Alignment discussion below.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

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

Application of the Air Service Support Program to assist the air carrier in succeeding financially in serving the new destinations will benefit the City. The Office of Economic Development and Cultural Affairs' financial multipliers were used to calculate City-wide economic impact statistics:

ZIPAIR Tokyo Estimated Impact

i. Name/address of beneficiary	ZIPAIR Tokyo, Inc. North Wing, Terminal 1 Narita International Airport Narita, City, Chiba 282-0011 Japan
ii. Start and end dates for support	Targeting December 2022 - May 2024
iii. Description and estimated total amount of expenditure or revenue lost	Landing fee waivers of \$982,498 Ticket counter fee waivers of \$331,661 Boarding gate fee waivers of \$358,872 Marketing funds of \$600,000
iv. Statement of purpose	The program is designed to enhance the ability to attract and support new commercial airline service and to benefit the Airport and the city
v. Projected tax revenue (includes Airport fee revenue)	The ZIPAIR service to Tokyo Narita is estimated to result in an additional \$2.45 million in fees and revenues. Annual economic impact estimated at \$30.3 million
vi. Estimated number of jobs created	Employee requirements are to be determined by each airline with respect to new or reinstated services being provided

COST SUMMARY/IMPLICATIONS

Funding from the Airport's Non-Personal/Equipment appropriation will fund the amount of \$600,000 to provide the necessary marketing funds for this qualified route. 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 dedicated marketing funds for qualifying new service. Additionally, the wider economic impact for the City resulting from these new flights has been exhibited in this document.

For the Airport Department, the impact of the Air Service Support Program for the flights discussed in this memorandum is expected to be a net positive result. The table below again summarizes the total net fees and revenues to the Airport compared to the combination of fee waivers and marketing funds provided to support the launch of the new service.

ZIPAIR Tokyo Estimated Impact

ZIPAIR Tokyo	
Route Impact Details	
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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. Higher passenger marketing expenditure amounts will help support new flights and make the Airport much more attractive to airlines when choosing new destinations in the future, increasing the probability of adding new service and ultimately increasing airport revenues.

BUDGET REFERENCE

The table below identifies the fund and appropriation to fund the actions recommended as part of this memorandum.

HONORABLE MAYOR AND CITY COUNCIL

September 29, 2022

Subject: Air Service Support Program for ZIPAIR Tokyo

Page 11

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. for Contract	2022-2023 Proposed Operating Budget* Page	Last Budget Action (Date, Ord. No.)
523	0802	Airport Non-Personal/ Equipment	\$51,142,505	\$600,000	836	06/21/22 Ord. No. 30790
Total Current Funding Available			\$51,142,505	\$600,000		

**The 2022-2023 Adopted Operating Budget was approved by City Council on 06/21/2022*

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 Mark Kiehl, Air Service Development Manager, at mkiehl@sjc.org or (408) 392-3624.