PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6b

Date of Meeting June 14, 2016

DATE: June 6, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Michael Ehl, Director Aviation Operations
Kazue Ishiwata, Senior Manager Air Service Development
Tom Green, Senior Manager Air Cargo Operations and Development

SUBJECT: Revised New Air Service Incentive Program for Seattle-Tacoma International Airport

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to implement a revised incentive program for new commercial air service for Seattle-Tacoma International Airport as described below for new international service, new domestic and short-haul international service, and new international freighter service.

SYNOPSIS

The purpose of this action is to revise and enhance the Airport's incentive program for new air services in order to be more competitive in attracting new air services to Seattle. The program provides participating airlines with temporary waivers of landing fees and certain facility charges as well as joint promotional support for the new service for a period of one to two years.

The Port's existing incentive program has proven to be an effective final inducement for carriers considering new service to Seattle. However, the market has become significantly more competitive since the program was last reviewed in 2011 (with the exception of the addition of Small Community Air Service Incentives in 2015). As the Airport seeks to attract new services further afield where carriers prefer to operate lower frequency service, the eligibility requirements of the current program appear unnecessarily onerous and not comparable to other airports' programs

The proposed changes to the incentive program simplify and enhance the existing incentives for medium- and long-haul international services, while adding modest incentives for new services to unserved domestic/short-haul international markets and for new freighter services. These proposed changes will bring the Airport's program in line with programs at other airports, and will help the Airport achieve its Century Agenda goals of advancing the region as a leading tourism destination and business gateway and to triple the volume of air cargo to a target of 750,000 annual metric tons.

BACKGROUND

Efficient air service is vital to Washington State's economy, benefiting the regional community as a whole in facilitating business transactions for corporate travelers and stimulating the state's tourism industry. Air cargo services, whether by freighter or with cargo carried by passenger aircraft, link Washington State producers and consumers to global markets emphasizing speed of delivery. New air services generate additional economic and employment benefits to the region, and provide the Port of Seattle with direct, incremental revenues. An international long-haul flight, for example, provides the Port with over $1.5 million in annual terminal rents and charges, and generates over $75 million annually to the regional economy.

The launch of a new air service requires significant investment risk on the part of an airline. For example, the cost to operate a daily long-haul international flight with a Boeing 777 aircraft is over $100 million annually, depending on many variables such as fuel price, flight distance, operating carrier's base cost, etc. With airlines having grown increasingly risk-averse since 9/11, it has become a commonly-held practice for airports, including Sea-Tac, to offer incentive programs as a way to partially mitigate these risks.

The Port of Seattle Commission authorized implementation of the Airport's new air service incentive program initially in December 2005, and subsequently granted revisions to modify it through several additional action items in 2007, 2009, 2011, and 2015. The incentives are comprised of a combination of fee waivers and/or joint promotional funds, depending on the category of service. The current program is primarily focused on new medium- and long-haul international services, which may qualify for one of four categories (A-D) based on the length of the new route and whether the market is already served by another carrier at the Airport. The program also has an additional category (E) for new service to unserved small communities in Washington, Oregon, or Idaho. However, the current program does not provide any incentives for new domestic markets or for new freighter services.

PROJECT JUSTIFICATION AND DETAILS

Project Objectives

The proposed changes to the incentive program will allow the Airport to compete more effectively in negotiating with prospective carriers in attracting new air services. The increased activities and resultant revenues brought by new air services produce a long-term reduction of overall airport costs, which benefits existing carriers.

Scope of Work

The tables below detail the proposed additions and changes to the Airport's New Air Service Incentive program. In summary, the proposed program:

- Enhances the existing program for new medium- and long-haul international flights by modestly increasing incentives and relaxing the eligibility requirements to include lower frequency services.
- Creates new incentives for new domestic or short-haul international flights to unserved markets.
- Creates new incentives for new international freighter service to help the Airport achieve the Century Agenda goal to triple the volume of air cargo.

Proposed Changes to New International Service Incentive Program

		Landing Fee Waiver		IAF Fee Waiver		Promotional Funds	
Category	**Eligibility**	**Year 1**	**Year 2**	**Year 1**	**Year 2**	**Year 1**	**Year 2**
Category A: Unserved Long-Haul Int'l Markets *(previously Cat. A & B)*	Unserved city ~~>6,000~~ >4,000 miles ~~5x~~ 2x week min, year-round	100%	100%	100%	100%	$500,000 ~~$455,000~~	
	~~Unserved city 4,000-5,999 miles 2x week min, year-round~~	~~75%~~	~~75%~~	~~100%~~	~~75%~~		
Category B: Unserved Medium-Haul Int'l Markets *(previously Cat. C)*	Unserved city 2,000-4,000 miles ~~3x~~ 2x week min, year-round	100% ~~75%~~	n/a	100% ~~75%~~	n/a	$300,000 ~~$200,000~~	
Category C: Competitive Medium- & Long-Haul Int'l Markets *(previously Cat. D)*	Served city ~~>4,000~~ >2,000 miles ~~3x~~ 2x week min, year-round	n/a	n/a	n/a	n/a	$200,000	n/a

Proposed Incentives for New Domestic and Short-Haul International Services

		Landing Fee Waiver		Ticket Counter & Gate Fee Waivers		Promotional Funds	
Category	**Eligibility**	**Year 1**	**Year 2**	**Year 1**	**Year 2**	**Year 1**	**Year 2**
Category D: Small Community Air Service *(previously Cat. E)*	Unserved city in Washington, Oregon, or Idaho 5x week min, year-round	100%	100%	100%	100%	~~$12,000~~ $25,000	~~$12,000~~
Category E: Unserved Domestic & Short-Haul Int'l Markets *(new category)*	Unserved city in the U.S. (excluding WA, OR, and ID) -or- Unserved city <2,000 miles 5x week min, year-round	n/a	n/a	n/a	n/a	$25,000	

Proposed Incentives for New International Freighter Services

		Landing Fee Waiver		Promotional Funds	
Category	**Eligibility**	**Year 1**	**Year 2**	**Year 1**	**Year 2**
Category F: Unserved International Freighter Markets *(new category)*	New service to markets with no existing freighter service 2x week min, year-round	100%	100%	up to $100,000	
Category G: Competitive International Freighter Markets *(new category)*	New service to markets with existing freighter service 2x week min, year-round	n/a	n/a	up to $25,000	n/a

Schedule

To be eligible for this incentive program, the new air service must be announced and become publicly available prior to the termination of the current Signatory Lease and Operating Agreement (SLOA). However, the carrier does not have to be a signatory carrier to be eligible for the incentive program.

FINANCIAL IMPLICATIONS

Financial Analysis and Summary

Even during the incentive period, new air services generate direct revenues to the Port, in addition to contributions to the regional economy. Below are two examples of the fee waiver structure based on the proposed incentives for passenger and cargo services. These examples do not include joint promotional funds of up to $500,000.

Example A: Estimated Charges and Incentives for Boeing 787-8 service 3x/week to Category A market
(Note: this service would not be eligible for ultra long-haul incentives under the current program)

Rate/Charge	Estimated Annual Charges	Waived Amount	Annual Cost paid by Carrier (Port revenue)
Landing Fee	$ 211,600	*$ 211,600*	-
Ramp Tower Fee	$ 1,200	-	$ 1,200
Apron Fee	$ 26,100	-	$ 26,100
Passenger loading bridge fee	$ 5,500	-	$ 5,500
Common use gate fee	$ 165,700	-	$ 165,700
FIS Facility Fee	$ 169,800	*$ 169,800*	-
Common use ticket counters	$ 55,800	-	$ 55,800
Baggage Makeup Device	$ 131,100	-	$ 131,100
Rate/Charge	**Estimated Annual Charges**	**Waived Amount**	**Annual Cost paid by Carrier (Port revenue)**
Baggage Makeup System	$ 53,600	-	$ 53,600
BMU Equipment Charge	$ 69,800	-	$ 69,800
Office Space Lease	$ 44,800	-	$ 44,800
Annual Total	**$935,000**	*($381,400)*	**$553,600**
2-year Total	**$1,870,000**	*($762,800)*	**$1,107,200**

Assumptions:
2016 rates and charges for SLOAIII signatory carrier.
236-seat Boeing 787-8 aircraft at 80% load factor; 1.5 bags per passenger
300 ft^2 office space

Example B: Estimated Charges and Incentives for Boeing 747-8F 2x/week freighter service to Category F market

Rate/Charge	Estimated Annual Charges	Waived Amount	Annual Cost paid by Carrier (Port revenue)
Landing Fee	$ 283,300	*$ 283,300*	-
Ramp Tower Fee	$ 800	-	$ 800
Cargo Operations Area fee	$ 18,200	-	$ 18,200
Annual Total	**$302,300**	*($283,300)*	**$19,000**
2-year Total	**$604,600**	*($566,600)*	**$38,000**

Assumptions:
2016 rates and charges for SLOAIII signatory carrier.

STRATEGIES AND OBJECTIVES

This project supports the Century Agenda objectives to advance the region as a leading tourism destination and business gateway by making Seattle-Tacoma International Airport the West Coast "Gateway of Choice" for international travel. It also supports the Century Agenda objective to triple the volume of air cargo.

This project also addresses the Aviation Division's strategic objectives to become one of the top ten customer service airports in North America and to operate a world-class international airport by ensuring safe and secure operations and by anticipating the meeting needs of tenants, passengers and the region's economy.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Eliminate New Air Service Incentive Program

Cost Implications: Joint promotional funds have averaged $511,000 annually over the past five years, and would be retained by the Port were the program eliminated. The elimination of fee waivers would also potentially save money.

Pros:

(1) The Port could save money through the elimination of joint promotional funds.
(2) The Port may gain additional services even without an incentive program.

Cons:

(1) The Port would be at a disadvantage with regards to peer airports with incentive programs.
(2) The Port could lose revenue from services that decide against Seattle because of a lack of incentives
(3) The Port could lose revenue from services that may have accelerated their decision to serve Seattle had incentives been in place.

This is not the recommended alternative.

Alternative 2 – Status Quo (maintain existing Incentive Program with no changes)

Cost Implications: The Port has spent an average of $511,000 in annual joint promotional funds over the past five years. However, this money has been more than offset by the additional revenue generated by new services.

Pros:

(1) The Port would not increase incentive program expenditures.
(2) The Port will receive the full amount of landing fees and other charges for any new air services that begin service but that are not eligible for incentives under the current program.

Cons:

(1) Competing airports are aggressively pursuing similar services with even more generous programs, thereby strengthening their positions as well as their working relationships with carriers.
(2) Carriers may decide against beginning new services that would not qualify for incentives, or would begin services later than they otherwise might have.

This is not the recommended alternative.

Alternative 3 – Implement Proposed Revisions to Incentive Program

Cost Implications: Under the proposed incentive program, more services will be eligible for fee waivers and joint promotional funds. The single largest increase in costs under the proposed program would be joint promotional funds available to qualifying new freighter services, which would be eligible for up to $100,000.

Pros:

(1) Increases opportunities to gain more challenging routes by presenting better risk mitigation to the carrier.
(2) Increases competitiveness with peer airports while meeting FAA compliance requirements.
(3) Inclusion of unserved domestic/short-haul international incentives closes "gaps" in the current program. Currently no incentives are available for unserved markets that fall between the existing small community criteria (current Category E) and medium-haul markets over 2,000 miles (current Category C), or for freighter services.

Cons:

(1) Port will receive reduced fees during the duration of the incentive program.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Proposed New Air Service Incentive Program

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- March 10, 2015 – The Commission authorized revisions to the incentive program to enhance incentives for Small Community Air Service.
- September 27, 2011 – The Commission authorized revisions to the incentive program to include a new category for ultra long-haul international operations.
- June 28, 2011 – The Commission approved a revised incentive program consistent with recently-published Federal Aviation Administration guidelines on airport incentives.
- June 14, 2011 – The Commission was briefed on the growth of international air service.

- May 5, 2009 – The Commission authorized revisions to the incentive program to include a narrow-body international air service to Europe, previously not included in the category.
- November 2, 2007 – The Commission authorized a modification to the previously approved program by eliminating the previously defined per-year usage limit for Joint Promotional funds, allowing greater flexibility within the existing cost and timeline restrictions.
- April 27, 2007 – The Commission authorized the implementation of a Small Community Air Service Incentive Program.
- April 10, 2007 – The Commission authorized revisions to the incentive program to create a new category for trans-border commercial air service routes.
- February 16, 2007 – The Commission authorized modifications to the incentive program raising the maximum benefits to an air carrier.
- December 13, 2005 – The Commission authorized the first request for implementing a New International Air Service Incentive Program.