



CITY COUNCIL STAFF REPORT

DATE: MAY 5, 2010

NEW BUSINESS

SUBJECT: AIRLINE MARKETING INCENTIVE PROGRAM FUND ALLOCATION TO WESTJET AIRLINES

FROM: David H. Ready, City Manager

BY: Department of Aviation

SUMMARY

This action would allocate the first funding from the new Airline Marketing Incentive Program to WestJet Airlines effective for a period of three months beginning June 1, 2010.

RECOMMENDATION:

1. Approve Air Service Incentive Agreement with WestJet Airlines for Not To Exceed amount of \$30,000 effective June 1, 2010 through August 31, 2010.
2. Authorize City Manger to execute all necessary documents.

STAFF ANALYSIS

In an effort to promote the growth of commercial airline service at PSP, the Airport Commission and City Council recently adopted an Air Service Incentive Program which allocates up to \$1,000,000 in promotional funding to qualifying incumbent and new air carriers that operate new air service at Palm Springs International Airport.

WestJet Airlines has been serving PSP airport since 2005 and recently announced that it will continue flying between its hub in Calgary and PSP throughout the summer months with twice weekly round trip service. This extended international Canadian service through the summer months is a first for this market and now Canadians and local Valley residents will have convenient access across Canada via the Calgary hub. This new June-August 2010 air service operation, based on the formula of the Incentive Program, will be eligible for \$10,000 per month for three consecutive months equaling a maximum of \$30,000 in promotional funding. The airline has requested participation in this program and staff recommends that the award be made to support the new service.

WestJet is a valued partner in this region's tourism industry and their plan for year-round

5/5/10
Item 5.A.

air service this year is a perfect candidate for promotional funding support because this air service market has extreme seasonality that makes it challenging for airlines to profitably sustain year-round service. Statistics indicate that PSP passenger volumes in August have been only one-third of the traffic generated in the peak month of March. This validates the significant differences in travel demand and the need to support it with promotional funding.

The Airport Commission at its April 14, 2010 meeting recommended approval of this agreement.

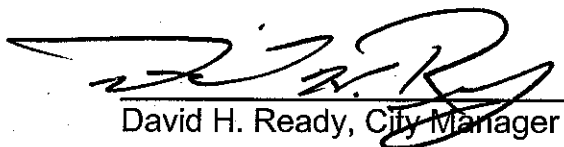
FISCAL:

The expenditure for this promotional support is a maximum of \$30,000. Funds are available in the current year budget 415-6002-45520 Airport Advertising.

Marketing and promotional funds offered through an incentive program are an investment in the future growth of air service to PSP because the increased passenger traffic generates a direct and indirect economic benefit. The added passenger traffic from this new service airport will generate additional revenues through the Passenger Facility Charges, food and gift concessions, vehicle parking fees, aircraft landing fees, and other sources. It is difficult however to estimate the amount of additional revenue that will be generated because it depends upon the volume of passengers utilizing the new flights and whether the passengers originate from here or arrive from another city.



Thomas Nolan,
Executive Director, Airport



David H. Ready, City Manager

Attachment: West Jet Air Service Incentive Agreement and Program Objectives

AIR SERVICE INCENTIVE AGREEMENT

This Memorandum of Agreement is entered into by and between the City of Palm Springs (City), acting by and through its Executive Director of Aviation, and WESTJET AIRLINES (Airline) organized and existing under the laws of the Province of ALBERTA, and is intended to memorialize the agreement between the City of Palm Springs and the Airline under the terms of the Palm Springs International Airport Air Service Development Incentive Program (Program), approved by City Council on MAY 5, 2010, a copy of which is attached hereto and incorporated herein by reference.

The City and the Airline, by their signatures to this Memorandum of Agreement, acknowledge that their agreement related to marketing incentives is to be governed by the Program. WestJet will provide twice weekly nonstop flights to its Calgary hub throughout the summer months of June, July, and August, 2010. It is understood and agreed that the Airline and the eligible new non-stop service or year-to-year increased capacity that Airline is offering at the Palm Springs International Airport fall into Section 3 (Existing Routes) of the Program and the maximum eligible marketing incentive is \$ 30,000 for the period from June 1, 2010 to August 31, 2010. The funds shall be utilized solely for the purpose of promoting the new route and/or year to year capacity addition. Upon request from the City, the Airline shall provide written certification that the funds have been so utilized.

It is the intent of this Agreement that the total amount of incentives shall be distributed to the Airline in the form of monthly partial payments as determined by the City. Once the total amount is paid to Airline by City, City will not assert any claims against Airline for such total amount, and the total amount will not be subject to route or increased capacity continuation.

These funds must be reimbursed or refunded on a pro-rated basis, rounded to the nearest completed month, to City by Airline if Airline leaves the market and/or discontinues the new non-stop route or increased service earlier than the qualifying period for which funds were allocated. These funds must be reimbursed if Airline fails to provide written certification as detailed above. In the event that Airline fails to refund or reimburse such funds within thirty (30) days of City's request, Airline expressly consents to City's right to issue an invoice for the unpaid amount and have legal claim to payment. This remedy shall be cumulative upon all other remedies available to City.

In the event of any conflict between the provisions of this Agreement and the Program, the provisions of the Program shall control.

The term of the Agreement shall be one year starting from the effective date of this Agreement. At the end of the period, the Agreement is not subject to extension, but shall terminate automatically.

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PALM SPRINGS INT'L AIRPORT AIR SERVICE INCENTIVE PROGRAM

IN WITNESS WHEREOF, the parties have executed and entered into this Agreement as of the date first written above.

ATTEST:

CITY OF PALM SPRING
a municipal corporation

By: _____
City Clerk

By: _____
City Manager

APPROVED AS TO FORM:

By: [Signature]
City Attorney

CONTRACTOR: Check one: ___ Individual ___ Partnership ___ Corporation

Corporations require two notarized signatures: One from each of the following: A. Chairman of Board, President, or any Vice President; AND B. Secretary, Assistant Secretary, Treasurer, Assistant Treasurer, or Chief Financial Officer.

By: [Signature]
Signature (notarized)

Name: John MacLeod

Title: VP Revenue + Planning

By: [Signature]
Signature (notarized)

Name: Shawn Christensen

Title: Corporate Secretary

Province _____
State of Alberta
City _____
County of Calgary

On April 19th before me, Andrew Kay

personally appeared John MacLeod
who proved to me on the basis of satisfactory
evidence to be the person(s) whose name(s)
is/are subscribed to the within instrument
and acknowledged to me that he/she/they
executed the same in his/her/their authorized
capacity(ies), and that by his/her/their signature(s) on
the instrument the person(s) or the entity upon behalf

of which the person(s) acted, executed the instrument.
instrument.

I certify under PENALTY OF PERJURY
under the laws of the State of California that
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Signature: [Signature]

Notary Seal:

Province _____
State of Alberta
City _____
County of Calgary

On April 19th before me, Andrew Kay

personally appeared Shawn Christensen
who proved to me on basis of satisfactory
evidence to be the person(s) whose name(s)
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the instruments the person(s) or the entity upon

Of which the person(s) acted, executed the

I certify under PENALTY OF PERJURY
under the laws of the State of California that
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Signature: [Signature]

Notary Seal:



April 7, 2010

Mark E. Kiehl
Deputy Director of Aviation
Palm Springs International Airport
3400 E. Tahquitz Canyon Way, Suite OFC
Palm Springs, CA 92262

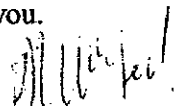
Mr. Kiehl,

WestJet Airlines is very appreciative of your new program designed to provide promotional support for new or additional services into Palm Springs International, and we are submitting this letter to verify our full summer 2010 operations qualifying for those funds and ask that our request for those funds be granted.

To verify our qualifications, WestJet will be providing twice weekly nonstop flights to our Calgary hub throughout the summer months of June, July, and August, 2010. This added capacity will be in excess of the 50% year-year increase required by your new program for funding up to \$10,000 per month and a total for the summer of \$30,000.

Although we do not have the specifics defined regarding usage of the additional promotional funds, WestJet's initiatives are typically balanced between a range of print, online, and radio advertising. It may make sense to put some promotional effort into the local Palm Springs market during the summer to increase awareness of the new north-bound travel opportunity. As we firm up the details we will provide more information.

Thank you.


John MacLeod
Vice President of Network & Revenue
WestJet Airlines

**PALM SPRINGS INTERNATIONAL AIRPORT
AIR SERVICE DEVELOPMENT INCENTIVE PROGRAM
EFFECTIVE JUNE 1, 2010**

1. OBJECTIVE

Air service is a vital contributor to the City of Palm Springs and the entire Coachella Valley, and it is widely recognized that that significant costs are associated with adding capacity through larger aircraft, more flights, or new markets. The promotion of new or additional capacity can be a critical factor in its success, acknowledging that airlines may redeploy valuable aircraft assets to other markets if targets are not achieved.

The Palm Springs International Airport (PSP) Air Service Development Incentive Program (the "Program") is designed to encourage and promote the expansion of commercial passenger airline service, both seasonally and year-round. Such growth can take place in new routes that are not currently served and/or through additional seat capacity being added by incumbent carriers in existing markets. Funds are to be used by the airline(s) to market and promote new services and/or significant year-year increases in seating capacity.

The Program is non-discriminatory; any airline that meets the criteria can qualify to receive benefits as outlined in this document. However, the airlines serving PSP today are our valued tenants and customers, and it is greatly anticipated that both existing and new carriers can take advantage of this program to expand service successfully.

2. TIMING OF PROGRAM AND DISTRIBUTION OF FUNDS

This Program is effective June 1, 2010, and may be continued until allocated funds expire or at the discretion of Palm Springs International Airport.

Airlines meeting the requirements outlined in this document will be allocated the qualifying funds on a first-come, first-served basis until the Program expires or total funds for the Program are expended.

3. QUALIFYING REQUIREMENTS

To qualify for incentives provided by the Program, the airline must take action in one of the following categories:

NEW ROUTE. Initiate a new route to/from PSP, defined as not being served within the 12 months prior to the qualifying service. The category of market, frequency, and duration of operations as stated in Exhibit 1 (below) will determine the amount of maximum funding.

EXISTING ROUTES. Increase total monthly seating capacity, through additional flight frequencies and/or larger aircraft, compared to the same month in the prior year between PSP and the same airport. Note: For monthly year-year increases to qualify, the additional capacity has to be in effect for a two week minimum within that month.

In both cases, the metrics outlined in Exhibit 1 will be used to determine qualifications for Program funds. In order to receive funding, each airline must do the following for EACH qualifying route:

- Submit in writing (an emailed document is acceptable) confirmation of the new route and/or year-year increase in monthly capacity;
- Request the funds in writing;
- Provide an outline of how the funds will be deployed. The Program funds shall be utilized solely for the purpose of promoting the new route and/or year to year capacity addition. These promotional initiatives must be approved by PSP staff, and copies of program specifics may be requested.
- In the event that a service or capacity increase is suspended prematurely, the airline shall be responsible for a pro-rated reimbursement of all marketing funds spent.

EXHIBIT 1

NEW ROUTES		Seasonal Low Freq	Seasonal High Freq	Extended Service
Target Category	Definitions/Requirements	Min 2/Wk Rt Min 3 Mos (up to amounts)	Min 4/Wk Rt Min 3 Mos (up to amounts)	Min 3/Wk Rt Min 6 Mos (up to amounts)
New Long Haul Hub or Focus City	1,500 miles or longer	\$100,000	\$250,000	\$400,000
	Not served within most recent 12 months Focus City - 50+ daily departures If NEW carrier to PSP (past 12 months)	\$200,000	\$500,000	\$800,000
New Long Haul Key Markets	1,500 miles or longer	\$50,000	\$100,000	\$150,000
	Top 25 O&D's with no nonstop service from the region If NEW carrier to PSP (past 12 months)	\$100,000	\$200,000	\$300,000
New Hybrid or Complementary Markets	No existing markets served nonstop from that specific airport (past 12 months)	\$50,000	\$100,000	\$150,000
	If NEW carrier to PSP (past 12 months)	\$100,000	\$200,000	\$300,000
EXISTING ROUTES			Per Month 26% to 50%	Per Month 50% or More
Target Category	Definitions/Requirements			
Increased Capacity - Shoulder or Peak Season	Existing markets - served within 12 months Based on monthly year-year seat increases		\$7,500 (Per Route)	\$10,000 (Per Route)

4. DEFINITIONS AND PROVISIONS

For purposes of determining the specifics of each qualifying route, the following definitions shall apply.

1. **New Market:** The route between PSP and another airport that has not had nonstop scheduled service within the most immediate 12 month period.
2. **New Long Haul Hub or Focus City:** An airport meeting the nonstop mileage requirements stated in Exhibit 1, with the qualifying airline serving that airport with 50 or more daily departing flights.
3. **New Long Haul Key Markets:** An airport meeting the mileage requirements stated in Exhibit 1 and having sufficient passenger demand to be in the Top 25 Palm Springs (PSP) market list as defined by U.S. DOT data.
4. **New Hybrid or Complementary Market:** Includes specific airports that have not had nonstop flights to/from PSP within 12 months, with no mileage limitations.
5. **Existing Routes:** Service between PSP and airports that currently have service or have had nonstop scheduled flights within the most immediate 12 months.
6. **New Carrier:** Any airline brand that has not served PSP within the most immediate 12 months. The addition of branded partners, such as the mixing of mainline and regional carrier operations, does not qualify under this category, nor does brand change due to merger or acquisition. An airline is no longer considered "New" after one year from the initial commencement of service into PSP.
7. **Frequency Requirements:** Due to PSP's seasonality, we encourage entry of new service that includes low frequency operations. Exhibit 1 outlines qualifications based on a combination of weekly flights and the duration of operations expressed in calendar months.
8. **Increased Capacity:** To encourage growth in existing markets, this category addresses currently served routes and measures year to year changes in total monthly seating capacity. Due to seasonal service variations, a minimum of two weeks of service is required within the month qualifying for funds.
9. **Competitive Applications:** If two air carriers announce plans to serve the same new market, the incentives available under this Program shall be payable to the first carrier that initiates service.
10. **Funding Amounts:** All values shown in Exhibit 1 are to be considered "up to this amount" or "maximum" limits and are subject to availability of remaining funds in the Program.
11. **Payment of Program funds to qualifying airlines will be on a first come, first served basis and determined by the date of initiation of the qualifying service. Payments will be made at the end of each month of qualifying air service; in cases where an airline qualifies for an amount of \$200,000 or more, payments will be prorated over a 12 month period beginning with the first month of qualifying service.**
12. **Any carrier availing itself of the Program will be required to execute a Memorandum of Agreement in a form determined by PSP. All marketing and promotional funds are subject to approval by the Palm Springs City Council. The**

Program may be discontinued at any time or cease at any time due to expiration of funds, and PSP reserves the right to modify the program or adjust funding according to the level of air service provided.

13. **Uses and Applications of Funds:** It is not the intent of PSP to impose creative control over promotional initiatives; Airport staff approval is required to ensure that allocated funds are used to promote the new service or increased capacity. Staff reserves the right to request specific information including copies of advertisements or other details. Promotional actions and activities may include, but are not limited to the following:
 - a. Specific advertising highlighting the qualifying PSP route;
 - b. Familiarization tours or events;
 - c. Media events;
 - d. Online contests and promotions;
 - e. Other activities as agreed to by both PSP and the airline.
14. Any carrier availing itself of the Program will be required upon request from PSP to provide written certification that any and all funds provided under the Program to the carrier were utilized solely for the purpose of promoting the new route and/or year to year capacity addition. Failure to provide said written certification shall result in repayment of any and all funds provided to the carrier under the Program.

5. ADDITIONAL INFORMATION

This Air Service Incentive Program is consistent with the mission of Palm Springs International Airport to preserve and enhance the City of Palm Springs' status as a premier tourist destination and provide the region's citizens with access to the global aviation system. All airlines are encouraged to review opportunities for expanded service and discuss potential applications with airport staff. For more information please contact Executive Director Thomas Nolan at (760) 318-3901.