CITY COUNCIL STAFF REPORT

DATE: September 16, 2015 NEW BUSINESS

SUBJECT: JetBlue Airways Incentive Program Funding

FROM: David H. Ready, City Manager

BY: Department of Aviation

SUMMARY

An action to approve Air Service Marketing Incentive funding to JetBlue Airways for nonstop seasonal service between Palm Springs International Airport and New York John F. Kennedy International Airport.

RECOMMENDATION:

1. Approve Air Service Incentive funding for JetBlue Airways in an amount not to exceed $50,000.
2. Authorize City Manager to execute all necessary documents.

STAFF ANALYSIS:

To promote the growth of commercial airline service at Palm Springs International Airport, City Council previously approved an Air Service Incentive Program. The intent of the program is to provide "jump-start" marketing assistance to both new and existing PSP air carriers that elect to operate new or expanded air service. To date, there have been approved funds to support seventeen (17) new or expanded routes into PSP by nine different airlines including WestJet, Virgin America, Frontier, United, Allegiant, Alaska Airlines, Delta, Air Canada, and Sun Country.

These new and expanded services funded by the incentive program have been a contributing factor to PSP Airport's record growth in airport passengers. In 2014, the Airport saw an all-time record in passenger activity and airline capacity. The JetBlue incentive seeks to continue this positive trend.

The East Coast is one of the greatest market growth opportunities for the entire Coachella Valley tourism and conventions industry, with New York being the largest metropolitan area. Under the incentive proposal, JetBlue will operate an Airbus A320 aircraft for flights five times weekly - Thursday through Monday - between January 14, 2016, and May 1, 2016. The airline carries more than 32 million customers a year to 90 cities in the U.S., Caribbean, and Latin America with an average of 875 daily flights. Palm Springs will be JetBlue's ninth destination in California.

At the drafting of this staff report, the Palm Springs Airport Commission has not yet had an opportunity to consider this proposal; however, they will do so at their meeting of September 16, 2015, at 8:00 A.M. Although staff anticipates Commission approval, their action will be reported to City Council during the meeting.

FISCAL IMPACT:

Because JetBlue Airways will now serve PSP Airport with additional direct service to New York four days a week and increasing the seat capacity by more than 50% over the service already provided by another airline, it is eligible, based on the stated Air Service Incentive Program Exhibit 1 (Existing Routes Target Category) for $10,000 per month. The service increase extends from January 2016 to May 2016, or five months, and equates to a not-to-exceed amount of $50,000.

Funding is available in the Airline Incentive Fund, account 415-6002-45521.

The anticipated increased passenger traffic from this new service to New York City will generate a direct and indirect economic financial benefit to the airport. Increased airport revenues will be realized from Passenger Facility Charges (PFCs), food and gift sales, car rentals, vehicle parking fees, aircraft landing fees, fuel flowage fees, etc., which should all contribute to a viable return on investment.

Thomas Nolan, A.A.E.
Executive Director, Airport

David H. Ready, Esq., ~~Ph.D.~~
City Manager

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 Target Category	Definitions/Requirements	Seasonal Low Freq	Seasonal High Freq	Extended Service
		Min 2/Wk RT Min 3 Mos	Min 4/Wk RT Min 3 Mos	Min 3/Wk RT Min 6 Mos
		(up to amounts)	(up to amounts)	(up to amounts)
New Long Haul Hub or Focus City	1,500 miles or longer Not served within most recent 12 months Focus City - 50+ daily departures	$100,000	$250,000	$400,000
	If NEW carrier to PSP (past 12 months)	$200,000	$500,000	$800,000
New Long Haul Key Markets	1,500 miles or longer Top 25 O&D's with no nonstop service from the region	$50,000	$100,000	$150,000
	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 Target Category	**Definitions/Requirements**		**Per Month 26% to 50%**	**Per Month 50% or More**
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)