

**CITY OF SAN ANTONIO
AVIATION DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM**

TO: Mayor and City Council

FROM: Roland A. Lozano, Interim Aviation Director

SUBJECT: Air Service Development Incentive for Delta Airlines

DATE: November 3, 2005

SUMMARY & RECOMMENDATION

An ordinance authorizing payment from Airport Funds in accordance with the San Antonio Air Service Incentive Program in an amount not to exceed \$50,000.00 to Delta Airlines for advertising and promotional expenses, as a result of the air carrier's initiation of new non-stop service to New York's JF Kennedy International Airport effective October 15, 2005.

BACKGROUND INFORMATION

The Aviation Department's Fiscal Year 2006 Budget includes funds to implement the San Antonio Air Service Incentive Program (Incentive Program), which includes financial support for advertising to any air carrier introducing new daily non-stop flights on a currently unserved route. Delta Airlines was the first air carrier to provide new non-stop service to New York's JF Kennedy International Airport (JFK Airport), which makes it eligible to participate under the Incentive Program.

The Incentive Program was first presented to City Council in B Session on October 25, 2001 with subsequent payments made to air carriers meeting specific criterion detailed in Supplemental Comments at the end of this memo. The Program was developed as part of the overall effort by the City to increase air service to the community and grow the City as a convention and visitor destination. Development of air service is one of four goals stipulated in the Aviation Industry Strategic Plan. To this end, the City Council approved a contract on February 8, 2001 with Kiehl Hendrickson Group to analyze San Antonio's market and determine new air service opportunities, as well as assist the Aviation Department with community outreach and development of an air service incentive program. The resulting market analysis listed destinations targeted for improved air service and New York City was included.

Delta Airlines initiated the once-daily non-stop flight to the formerly unserved JFK Airport on October 15, 2005 using the Embraer-170 (66-passenger seat) regional jet. Configurations on the regional jet will include six seats in First Class, 28 in Economy Plus and 32 in standard Economy Class.

Prior to this year, Delta Airlines served Dallas Fort Worth International Airport (DFW), Hartsfield Atlanta International Airport and Cincinnati/Northern Kentucky International Airport from San Antonio. For strategic reasons, Delta discontinued its hub operation at DFW in

February 2005, eliminating flights on Delta Airlines between San Antonio and DFW. However, American Airlines continues to provide daily non-stop flights to DFW. During 2005, Delta Airlines has focused on growing its presence in the San Antonio market with the addition new non-stop flights into some of its focus cities. Starting January 31, 2005, Delta Airlines reinstated San Antonio – Salt Lake City non-stop flights as part of its plan to grow its Salt Lake City hub operation. In June 2005, the air carrier started a single frequency, daily new non-stop flight to Orlando International Airport. With the start of new non-stop service to JFK Airport on October 15th, San Antonio passengers will have an opportunity to connect onto flights leaving for multiple European destinations served by Delta Airlines. Airport employment for Delta has increased from 34 employees in 2004 to the current 36. Overall, Delta flights increased from 19 in 2004 to 20 in 2005 with the addition of new daily non-stop to JFK.

On September 14, 2005, Delta Airlines filed protection under Chapter 11 of the U.S. Bankruptcy Code. Operations at San Antonio International Airport have continued without interruption, and reductions in air service are not anticipated.

POLICY ANALYSIS

This action is consistent with City Council's policy to encourage additional nonstop air service from San Antonio on unserved routes pursuant to the Incentive Program.

FISCAL IMPACT

The Aviation Department's Fiscal Year 2006 Budget includes funds to implement the San Antonio Air Service Incentive Program (Incentive Program), which includes financial support for advertising to any air carrier introducing new daily nonstop flights on a currently unserved route. Delta Airlines was the first air carrier to provide new nonstop service to JF Kennedy International Airport, which makes it eligible to participate under the Incentive Program. Payment to Delta Airlines, not to exceed \$50,000.00, will be made from Airport self-generated funds. This sum will be recovered through additional airline rentals and fees, as well as parking revenues generated at the Airport.

SUPPLEMENTARY COMMENTS

To gain new or additional service, many U.S. communities and airports have developed creative ways to improve the success of attracting additional flights by assisting in the airlines' marketing efforts. San Antonio's Incentive Program is similar to those at other airports and includes some of the following eligibility elements:

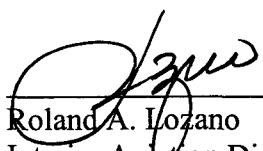
- \$100,000.00 is available to the first air carrier that begins new scheduled non-stop flights on a route to a U.S. or international destination from San Antonio, providing with a minimum of one (1) daily round-trip frequency, five (5) days per week, on a "mainline" jet aircraft (e.g., Boeing 737, MD-80, DC-9, etc. configured with a minimum of 80 seats or greater).
- Advertising support, up to a "maximum" of \$50,000.00, is available to the first air carrier providing non-stop flights on a new route with a "minimum" one (1) new daily frequency, five (5) days per week, on a regional jet (RJ) aircraft (e.g.,

Canadair CRJ, F-27 or Embraer ERJ, Fairchild FRJ, etc.), usually configured with between 35 and 79 seats to a new destination from San Antonio. Alternatively, should an air carrier initiate two (2) frequencies within 120 days from the initiation date of the first new non-stop flight on the same route using a regional jet with a seat capacity equal to or greater than the above described "mainline" jet aircraft, a maximum of \$100,000.00 is available for advertising support of the new service.

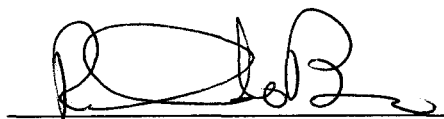
- Under the paid advertising portion of the Incentive Program, the funds may be expended over the course of a one-year period following the initiation of the new scheduled service. At the air carrier's option, this may take the form of matching funds for cooperative advertising or a reimbursement payment to the airline, all of which must be for San Antonio International Airport destination-specific advertising.
- The paid advertising incentive is available to only the first airline to announce and initiate new scheduled jet service on the unserved route.
- The advertising incentive is available to both signatory and non-signatory airlines provided that the airline has signed the City of San Antonio's signatory *Airline-Airport Use and Lease Agreement* or non-signatory *Airline-Airport Operating Permit Agreement*.

The Aviation Department also provides other direct marketing and promotions for new air service such as announcements via press releases; assistance with inaugural celebrations; advertisements on the airport billboard located at the corner of U.S. Highway 281 and South Terminal Drive; advertisements in the Flight Guide; and news articles in the *Flight Plan*.

The Ethics Disclosure form signed by Delta Airlines is attached.



Roland A. Lozano
Interim Aviation Director



J. Rolando Bono
City Manager

Barbara Crossen
SAT

City of San Antonio Discretionary Contracts Disclosure

For use of this form, see Section 2-59 through 2-61 of the City Code (Ethics Code)
Attach additional sheets if space provided is not sufficient.

(1) Identify any individual or business entity that is a party to the discretionary contract.

N/a
Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

(2) Identify any individual or business entity which is a partner, parent or subsidiary business entity of any individual or business entity identified above in Box (1).

☐ No partner, parent or subsidiary; or

List partner, parent or subsidiary of each party to the contract and identify the corresponding party:

N/a
Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

(3) Identify any individual or business entity that would be a subcontractor on the discretionary contract.

☐ No subcontractor(s); or

List subcontractors:

NA
Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

(4) Identify any lobbyist or public relations firm employed by any party to the discretionary contract for purposes related to seeking the discretionary contract.

N/a
Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

☐ No lobbyist or public relations firm employed; or

List lobbyists or public relations firms:

N/a
Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

(5) Political Contributions

List all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made to any *current or former member* of City Council, any *candidate* for City Council, or to any *political action committee* that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under Box (1), (2), (3) or (4) above, or by the officers, owners of any business entity listed in Box (1), (2) or (3).

☐ No contributions made; If contributions made, list below:

By Whom Made:	To Whom Made:	Amount:	Date of Contribution:
N/a Michael C. Anastas Regional Director Corporate Real Estate Air Lines, Inc.			

**City of San Antonio
Discretionary Contracts Disclosure**

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Attach additional sheets if space provided is not sufficient.

known facts which, reasonably understood, raise a question as to whether any City official or employee would violate Section 2-43 of the City Code (Ethics Code) or "conflicts of interest" by

Party not aware of facts which would raise a question of the City Code; or

Party aware of the following facts:

N/A

Michael C. Anastas
Regional Director
Corporate Real Estate
Delta Air Lines, Inc.

This form is required to be supplemented in the event there is any change in the information before the discretionary contract is the subject of council action, and no later than five (5) business days after any change about which information is required to be filed, whichever occurs first.

Signature: <i>Michael C. Anastas</i>	Title: <i>Regional Director</i> Company or D/B/A: <i>DELTA Air Lines, Inc.</i>	Date: <i>10-20-2005</i>
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² For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

COSA Form 1060-33-2, 09/12/02, revised 04/02/05