

CITY OF SAN ANTONIO
AVIATION DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM

CITY OF SAN ANTONIO
CITY COUNCIL AGENDA
ITEM NO. 43

TO: Mayor and City Council

FROM: Mark H. Webb, Interim Aviation Director

SUBJECT: Air Service Development Incentive for Southwest Airlines

DATE: December 15, 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 \$100,000.00 to Southwest Airlines for advertising and promotional expenses, as a result of the air carrier's initiation of a new non-stop route to Chicago Midway Airport effective October 2, 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. Southwest Airlines was the first air carrier to provide non-stop service to Chicago Midway 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.

With Southwest's desire to expand service to and from Chicago Midway, the Aviation Department specifically targeted San Antonio-Chicago Midway in its presentations to the airline during 2005. Chicago is one of San Antonio's largest origination and destination (O&D) markets with over 230,000 O&D passengers annually. Southwest Airlines initiated the once-daily non-stop flight to the formerly unserved Chicago Midway Airport on October 2, 2005 using a 137-seat Boeing 737-700. United Airlines also currently provides the City of San Antonio non-stop service to the Chicago O'Hare International Airport. With this new Southwest Airlines non-stop service, San Antonio passengers have additional options when traveling to the Chicago market.

Southwest Airlines provides non-stop service to an additional 11 destinations for a total of 46 daily departures from San Antonio International Airport. In 2004, Southwest flew slightly over 2.5 million San Antonio passengers, which represents approximately 36 percent of the total 7 million for that year. In rentals and fees, Southwest Airlines paid the City \$4.3 million during fiscal year 2004-2005. This is expected to increase in fiscal year 2005-2006 with additional flights scheduled to start during the first quarter.

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 Incentive Program, which includes financial support for advertising to any air carrier introducing new daily non-stop flights on a currently unserved route. Southwest Airlines was the first air carrier to provide new non-stop service to Midway Airport, which makes it eligible to participate under the Incentive Program. Payment to Southwest Airlines, not to exceed \$100,000.00, 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

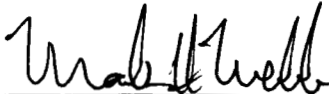
To gain new or additional service, many U.S. communities and airports have developed creative ways to improve the success of attracting additional flights by assisting in the airlines' marketing efforts. San Antonio's Incentive Program is similar to those at other airports and includes some of the following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

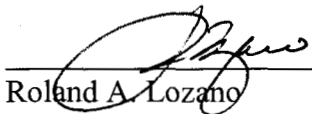
- Under the paid advertising portion of the Incentive Program, the funds may be expended over the course of a one-year period following the initiation of the new scheduled service. At the air carrier's option, this may take the form of matching funds for cooperative advertising or a reimbursement payment 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*.

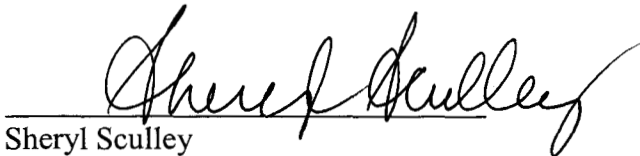
The Ethics Disclosure form signed by Southwest Airlines is attached.



Mark H. Webb
Interim Aviation Director



Roland A. Lozano
Assistant to the City Manager



Sheryl Sculley
City Manager

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 entity¹ that is a **party** to the discretionary contract:

Southwest Airlines Co.
2702 Love Field Drive
Dallas, TX 75235

(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:

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

☒ No subcontractor(s); or

List subcontractors:

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

☒ No lobbyist or public relations firm employed; or

List lobbyists or public relations firms:

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¹ A *business entity* means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law. A sole proprietor should list the name of the individual and the d/b/a, if any.

(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:


(6) Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city must disclose any known facts which, reasonably understood, raise a question² as to whether any city official or employee would violate Section 2-43 of the City Code (Ethics Code), ("conflicts of interest") by participating in official action relating to the discretionary contract.

☒ Party not aware of facts which would raise a "conflicts-of-interest" issue under Section 2-43 of the City Code; or

Party aware of the following facts:

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: 	Title: Marketing Specialist Company or D/B/A: Southwest Airlines	Date: November 11, 2005
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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.