

**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

DATE: March 7, 2014

TO: Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors
Supervisor Michael Mayo, Sr., Chairman, Transportation, Public Works and
Transit Committee

FROM: Brian Dranzik, Director, Department of Transportation

SUBJECT: **AIRPORT AIR SERVICE INCENTIVE PROGRAM (FOLLOW UP) FILE
NO. 13-862**

DIRECTIVE

At the December 4, 2013, meeting, the Transportation, Public Works and Transit Committee requested that the Airport provide information that reflects supportive data and documentation that Air Service Incentives have proven to be effective at other airports, including information on the return on investment for such implementation.

BACKGROUND

The airline industry has experienced substantial change over the last ten years. Airlines have merged and divested and business plans have been altered to accommodate the fluctuating economy. The remaining major airlines have shifted their focus to larger hub airports where their planes can be filled at higher fares. Small and medium hub airports have experienced a reduction in flights and cities served. To fill the void and attract new flights, some airports have initiated an air serve incentive program that mitigates an airline's financial risk of adding new service. Initially, incentive programs were utilized almost exclusively by smaller airports, but in recent years, larger airports have launched them as well. Incentive programs are currently in effect in: Pittsburgh; Portland; Las Vegas; St. Louis; Dallas/Fort Worth; Tampa; Sacramento; Cleveland; Columbus; Boston; Detroit; Baltimore; Memphis, Charleston; Tulsa, Sarasota and the trend will continue to grow.

REPORT

In response to the TPW&T Committee's request, the Airport sought air service incentive program information from other airports, and received responses from four airports. Each airport expressed a requirement that its information be cited only in general terms that would preserve the confidential terms of agreement with air carriers. Results are presented in the attached chart, Airline Incentive Programs implemented at Various United States Airports. It is clear that the air service incentive programs at these airports have contributed to the successful launch of new service. Incentive programs at other airports, however, have not resulted in any, or very limited,

Marina Dimitrijevic, Chairwoman, County Board of Supervisors
Michael Mayo, Sr., Chairman, Transportation, Public Works, and Transit Committee
March 7, 2014
Page 2

additional service.

RECOMMENDATION

This report is for informational purposes.

Prepared by: Pat Rowe, Marketing and Public Relations Manager

Approved by:

Brian Dranzik, Director,
Department of Transportation

C. Barry Bateman
Airport Director

Airline Incentive Programs Implemented at Various United States Airports

Airports Providing Incentives via Incentive Program	Metropolitan Statistical Area (MSA) 2012	Total Passengers 2012	Cities/Routes Acquired through Incentive Program – New Service (or add'l route)	Incentive Dollars Spent	Fee Waiver Values	ROI (Return on Investment) for the airport or community	Number of Years Incentive Program has been offered
City A*	2.4 Million	8 Million	1) 4 Domestic 2) 2 International	Over \$270,000 per market (including landing fee waivers and marketing)	Over \$480,000 in landing fees for markets attained	Varies. About \$20,000 to \$90,000 net incremental revenue during incentive period for each new route. Over \$200,000 net incremental revenue for each year <i>after</i> incentives; includes only airport revenue	6
City B*	2.3 Million	14.4 Million	1) 11 Domestic 2) 1 International	\$25,000-\$100,000 For new domestic markets (Amount spent is at the discretion of the airport based on length of service, market size, market rank and whether there is an existing service on the route.	Landing fees, common use gates, common use ticket counters, apron parking for unserved routes and marketing. Approximately \$420,304 for a year round flight, i.e. Boeing 737-800	Annual revenues to the airport for the year round flight listed in the fee waiver value was projected at \$1,115,549; projection includes terminal concessions revenue, rental cars, parking and Passenger Facility Charges (PFC).	6
City C*	1.8 Million	9.4 Million	1) 6 Domestic 2) 3 International	N/A	Facilities Incentives for 12 months for qualifying airlines; landing fee incentives for 6 months and marketing incentives based on services provided and to be determined by Airport.	N/A	5

Airline Incentive Programs Implemented at Various United States Airports

Airports Providing Incentives via Incentive Program	Metropolitan Statistical Area (MSA) 2012	Total Passengers 2012	Cities/Routes Acquired through Incentive Program – New Service (or add'l route)	Incentive Dollars Spent on each City	Fee Waiver Values	ROI (Return on Investment) for the airport or community	Number of Years Incentive Program has been offered
City D*	3.2 Million	17.3 Million	1) 14 Domestic 2) 3 International	N/A	1.5 Million dollars have been spent on fee waivers and marketing dollars for year one for international route. Other values N/A	N/A	7
Milwaukee	1.6 Million	7.5 Million					

**NOTE: For competitive purposes, the Airports listed above requested that their names be withheld.*