COUNTY OF MILWAUKEE

**INTEROFFICE COMMUNICATION**

**DATE:** October 30, 2013

**TO:** Marina Dimitrijevic, Chairwoman, County Board of Supervisors

Michael Mayo, Sr., Chairman, Transportation, Public Works and Transit Committee

**FROM:** Brian Dranzik, Director, Department of Transportation

 **SUBJECT:** **AIRPORT AIR SERVICE INCENTIVE PROGRAM**

## POLICY

An Air Service Incentive Program requires County Board approval.

## BACKGROUND

Much has changed in the airline industry over the past 10 years. Major airlines have merged and start-up airlines have experienced varying degrees of success during times of change in the nation’s economy, all compounded by a sharp rise in the cost of fuel while airfares have remained very competitive. In 2000, 10 airlines controlled 90% of domestic airline passenger capacity, while in 2014, that number may shrink to 4 airlines, should the American and US Airways merger be approved.

During this period, airlines have lost billions of dollars, merged and divested, and overhauled their business plans. The remaining major airlines have retrenched to focus on large hub routes where they can fill their planes for top dollar, while small and medium-sized markets nationwide are experiencing a reduction in flights and cities served.

As a result, a number of airports have initiated air service incentive programs to jumpstart nonstop flights on routes in demand by travelers while mitigating the start-up risk for an airline. Air carrier incentive programs are governed by FAA regulations, which define an incentive as: “any fee reduction, fee waiver, or use of airport revenue for acceptable promotional costs, where the purpose is to encourage an air carrier to increase service at the airport.” At one time, incentive programs were used almost exclusively at small airports. However, in the last few years, even large airports have adopted the programs. Incentive programs are in effect at airports such as Pittsburgh; Portland; Las Vegas; St. Louis; Dallas/Fort Worth; Tampa; Sacramento; Cleveland; Columbus; Boston; Detroit; Baltimore; Memphis; Charleston; Tulsa; Sarasota and others.

GMIA staff recommends the initiation of an Air Service Incentive Program to encourage new nonstop service on high-demand routes from Milwaukee while partnering with airlines to assist in covering the startup costs associated with new service. MKE’s program would prioritize cities based on travel demand, and would offer a combination of fee waivers for airlines and the expenditure of marketing funds to promote new nonstop service to these cities. The program would be effective January 1, 2014, to December 31, 2017, after which the airport staff would evaluate its success and recommend whether it should be continued.

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| **Category** | **Landing Fee Rebate** | **Space Lease Rebate****(holdroom, apron, jetbridge, ticket counter, ATO, BMU)** | **Int’l Fee Waivers** | **Required****Weekly****Departures to Trigger MKE Marketing Funds** | **MKE Marketing****Funds** | **Term** |
| **DOMESTIC/****SELECTED NORTH & CENTRAL AMERICA** **MARKETS** | 100% year 1 50% year 2  | 100% year 1 50% year 2  (if flown by incumbent, applies only to add’l space needed for new city served) | Yes | 5 | $75,000 year 1$75,000 year 2 | 24 months |
| **TRANS-ATLANTIC/****TRANS-PACIFIC/****HAWAII/****MEXICO CITY** | 100% year 150% year 2 | 100% year 150% year 2(if flown by incumbent, applies only to add’l space needed for these int’l flights) | Yes | 3 | $125,000 year 1$125,000 year 2 | 24 months |

**RECOMMENDATION**

Airport staff recommends that an Air Service Incentive Program be approved and further recommends that the Airport Director be authorized to enter into air service incentive agreements with airlines.

**FISCAL NOTE**

An appropriation of $200,000 has been included in the Airport’s 2014 Recommended Budget. Funding for this program will come from the Airport Development Fund. There is no fiscal effect on the tax levy of Milwaukee County.

Prepared by: Patricia Rowe, Marketing & Public Relations Manager

Approved by:

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Brian Dranzik, Director C. Barry Bateman

Department of Transportation Airport Director