



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

Item Creation Date: 9/16/2021

HAS - Air Service Incentive Program 2021-2024

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance approving and authorizing an Air Service Incentive Program for the Houston Airport System.

SPECIFIC EXPLANATION:

On September 19, 2019 City Council enacted Ordinance No. 2019-718 approving and authorizing a two-year Air Service Incentive Program for the Houston Airport System (HAS) to attract air service in new markets and bring new carriers to Houston.

The current program has contributed to welcoming new airlines and opening numerous new routes, including:

- Delta Air Lines to New York and Los Angeles
- Ethiopian Airlines to Addis Ababa
- United SkyWest to eight U.S. cities
- Allegiant to six U.S. cities
- Southwest Airlines to fourteen U.S. cities and Cozumel, Mexico
- VivaAerobus to Mexico City, Cancun and Leon Bajio, Mexico
- Volaris to Mexico City
- Sun Country to Cancun, Mexico

With the current Air Service Incentive Program reaching the end of its two-year term, HAS is requesting to renew the program, with some revisions, extending the program duration to two years and nine months, instead of the standard two-year period from previous programs. This time frame measure is suggested to coincide with the end of HAS Fiscal Year and simplify management of the budget. The new program would be effective from October 2021 to June 2024, with a budget of \$10 million.

The program provides various incentives, including the abatement of Landing Fees, abatement of Federal Inspection Services Charges, Marketing Support, and abatement of Turn Charges. The program will only pay an incentive if qualifying new air service materializes, and funding will be on a first-come first-served basis. The program is designed to comply with the FAA's airport revenue standards which restrict the amount, duration, and terms of incentives that an airport may offer to attract new air service.

With the success of previous programs, the components and conditions for the next two-year nine-month program are proposed to remain mostly unchanged but some categories will be modified. For the coming program, HAS proposes removing all U.S. domestic markets from qualification due to capacity constraints to accommodate new domestic flights at Bush Intercontinental (IAH) and William P. Hobby (HOU) airports, prioritizing international air service growth at HOU with additional benefits by adding a new "expansion of international passenger service at a second Houston Airport" category and also offering additional marketing funds to new entrant carriers starting international passenger service at HOU. This additional marketing funds benefit for new international passenger service at HOU is supplemental to incentives offered under the current new entrant and new market categories.

Although it is a priority to promote international service at HOU, HAS is still pursuing international long-haul service with larger aircraft from IAH, which would get maximum incentives based on a larger number of passengers flown per year. Under the proposed program, by way of example, a new daily international flight to/from India from IAH would receive approximately \$4 million in reduced fees and other incentives. Such a flight would produce more than 75,000 annual enplaned passengers, providing a positive economic impact to the City. These passengers would also generate roughly \$607,000 in non-airline revenue each year for the airport, which would cover the \$4 million incentive cost in seven years.

A summary of the program is as follows:

A. Incentives for New Markets to/from Houston

1. Scheduled Passenger Service

Tier 1 – International Service to Asia, Africa, Europe and South America

- Two-year abatement of Central Federal Inspection Services charges
- Two-year abatement of Landing Fees
- \$500,000 for marketing support during year one for daily service (prorated if less than daily)

Tier 2 – International Service to Other Markets

- Two-year abatement of Central Federal Inspection Services charges

- Two-year abatement of Landing Fees
 - \$400,000 for marketing support during year one for daily service (prorated if less than daily)
2. Scheduled or Scheduled Charter International Cargo Service (IAH)
- Two-year abatement of Landing Fees
 - \$100,000 (for 4-7 weekly flights) or \$50,000 (for 1-3 weekly flights) for marketing support during year one

B. Incentives for New Entrant Carriers to Houston

1. Scheduled Passenger Service

Tier 1 – International Service to Asia, Africa, Europe and South America

- One-year abatement of Turn Charges (arrival/departure area charge and ticketing area fee per passenger)
- \$500,000 for marketing support during year one for daily service (prorated if less than daily)
- If the carrier starts its service at HOU, additional \$500,000 for marketing support during year one for daily service*

Tier 2 – International Service to Other Markets

- One-year abatement of Turn Charges (arrival/departure area charge and ticketing area fee per passenger)
- \$400,000 for marketing support during year one for daily service (prorated if less than daily)
- If the carrier starts its service at HOU, additional \$500,000 for marketing support during year one for daily service*

2. Scheduled or Scheduled Charter International Cargo Service (IAH)

- One-year abatement of Landing Fees
- \$100,000 (for 4-7 weekly flights) or \$50,000 (for 1-3 weekly flights) for marketing support during year one

C. Incentives for Market Expansion by an airline starting service on a route that is new to them.

An airline is eligible to apply under this new category only if the new service does not qualify for benefit under the “New Entrant” or the “New Market” categories of the program.

1. Scheduled Passenger Service to International Markets

- One-year abatement of Central Federal Inspection Services charges
- One-year abatement of Landing Fees

2. Scheduled or Scheduled Charter Cargo Service to or from International Markets

- One-year abatement of Landing Fees

D. Incentives for Expansion of International Service at second Houston Airport.

An airline is eligible to apply under this new category only if it operates at one Houston Airport (IAH or HOU) and adds net new international passenger service at the other Houston “unserved” airport while maintaining existing international flights at current Houston Airport. This benefit applies even if that same international route is also offered from the other Houston Airport (IAH or HOU).

1. Scheduled Passenger Service to International Markets

- One-year abatement of Central Federal Inspection Services charges
- One-year abatement of Landing Fees

Fiscal Note Expenditure:

Funding for this item is included in the FY22 Adopted Budget. Therefore, a fiscal note is not required as stated in the Financial Policies.

Director’s Signature:

DocuSigned by:

J'Maine Chubb

Mario C. Diaz
Houston Airport System

Andy Icken
Chief Development Officer

Estimated Spending Authority

DEPARTMENT	FY2022	OUT YEARS	TOTAL
Houston Airport System	\$4,000,000.00	\$6,000,000.00	\$10,000,000.00

Amount and Source of Funding:

\$10,000,000.00
HAS Revenue Fund
Fund 8001

Contact Information:

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