Budget Analysis Report On Aviation Revenue and Marketing Incentive Fees

JUNE 2021

Prepared for the Massport Community Advisory Committee by the Edward J. Collins, Jr. Center for Public Management and Spy Pond Partners, LLC

Table of Contents

Background

The Massachusetts Port Authority Community Advisory Committee (Massport CAC) retained the services of the University of Massachusetts Boston Edward J. Collins, Jr. Center for Public Management (Collins Center) to analyze and assess Massport's budget with an emphasis on Aviation Revenue and Marketing Incentive Fees. The Collins Center Project Team (Project Team) conducted research into some of Massport's financial operations through reviewing documents provided by Massport, reviewing available data, and reviewing relevant materials as they pertain to Massport budgets with an emphasis on Aviation Revenue and Marketing Incentive Fees.

This document also describes a review of practices related to aviation revenue and marketing incentives. The review was performed for the Massport CAC by Spy Pond Partners, LLC (SPP) under subcontract to the Collins Center as part of a broader review of Massport practices, and took place in the midst of the COVID-19 pandemic.

Overview

Massport was established by Chapter 465 of the Acts of 1956 by the Massachusetts State Legislature as an independent public authority to operate large-scale, special-purpose transportation infrastructure. Today, Massport owns and controls several properties relevant to commercial, industrial, freight, and passenger transportation with a mission to move people and goods safely and securely. Most notably, Massport controls Logan International Airport, Hanscom Field, Worcester Regional Airport, the Port of Boston, and other properties largely throughout Charlestown, East Boston, and South Boston.[1] Combined, these properties amount to approximately 460 acres of land. Massport's main objectives for its real estate holdings are to:

- support its maritime facilities and operations through new and sustainable revenue;
- stimulate new economic development opportunities that will increase investment, jobs, and tax revenues with a focus on equity and inclusion; and
- support the City of Boston and all the municipalities in which Massport operates with thoughtful, collaborative urban planning and design.[2]

The Massachusetts Port Authority Community Advisory Committee (Massport CAC) was established by Chapter 46 of the Acts of 2013 by the Massachusetts State Legislature, with a mission to make recommendations about spending, hold hearings, analyze and assess annual reports, make recommendations to Massport leadership, the Governor, and the Commonwealth generally with regard to Massport operations. Massport CAC also appoints one board member to the Massport Board of Directors with the approval of the Governor. Essentially, Massport CAC was established in order to give communities served by Massport a greater voice regarding its operations.

[1] *Overview of the Massachusetts Port Authority*. Mass.gov. Retrieved February 2021. https://www.mass.gov/info-details/overview-of-the-massachusetts-port-authority.

[2] *Real Estate & Asset Management. Massport*. Retrieved February 2021. http://www.massport.com/massport/business/real-estate/#:~:text=Approximately%20330%20acres%20of%20land,Apartments%2C%20Waterside%20Place%20Apartments%2C%20Gables.

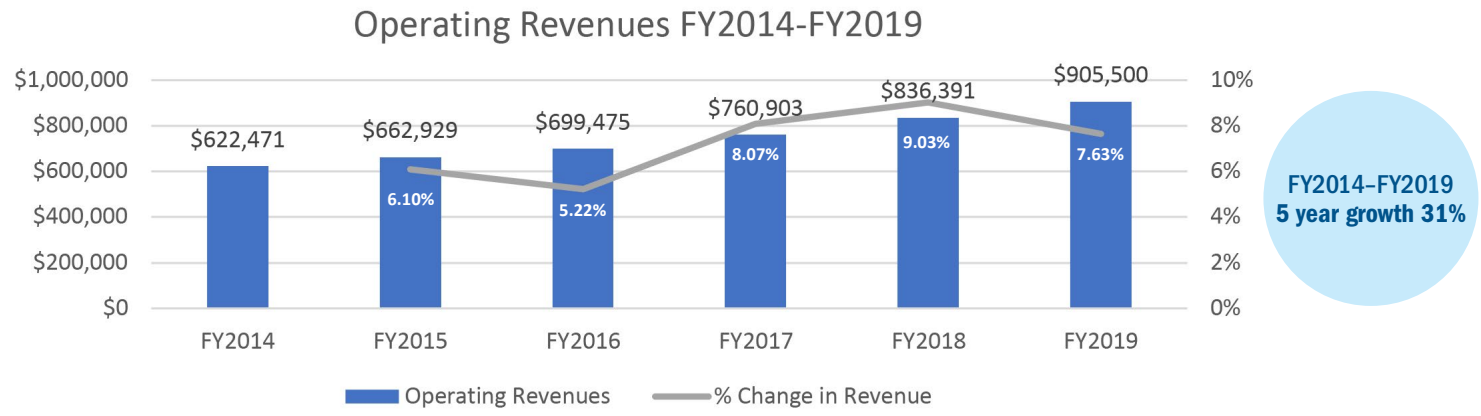
[3] *Massachusetts Port Authority Community Advisory Committee Legislation*. Chapter 46 of the Acts of 2013. Retrieved February 2021.

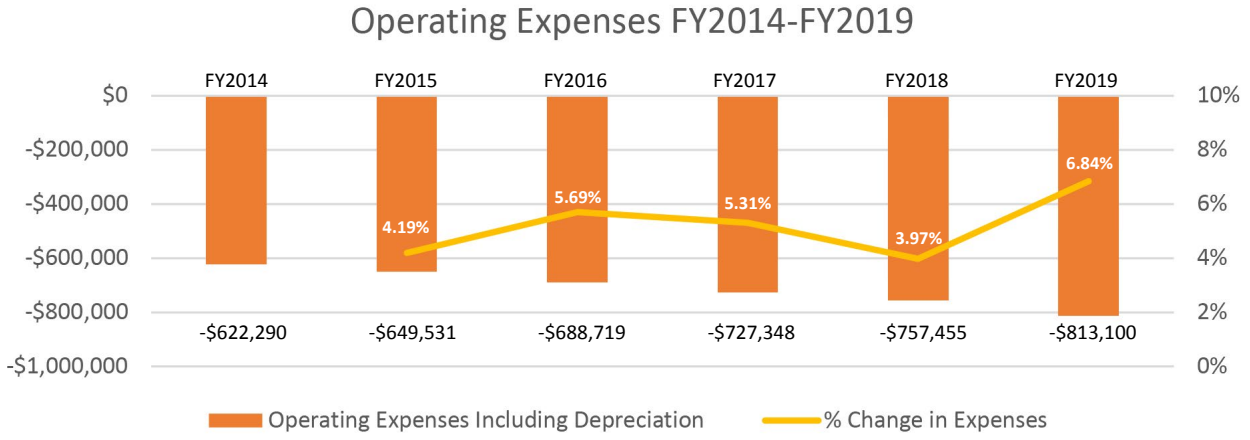
Budget Review

Massport made available to the Collins Center Project Team certain revenue and expense data ranging from FY2014 to FY2019. The Project Team assessed these figures and developed a series of financial statements and analyses of relevance ranging from a condensed statement of revenues, expenses by location, non-operating revenues and expenses, traffic and other metrics, and significant revenues. The following discussion outlines the Project Team's findings.

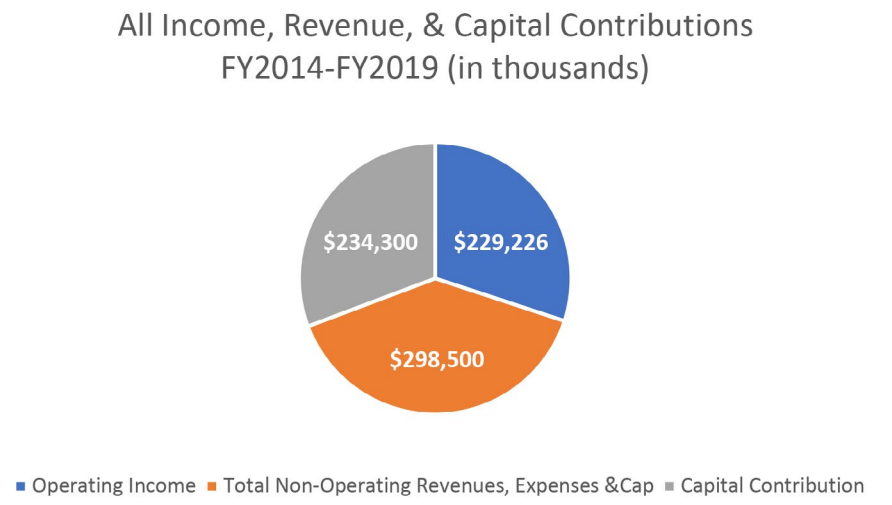
Condensed Statement of Revenues

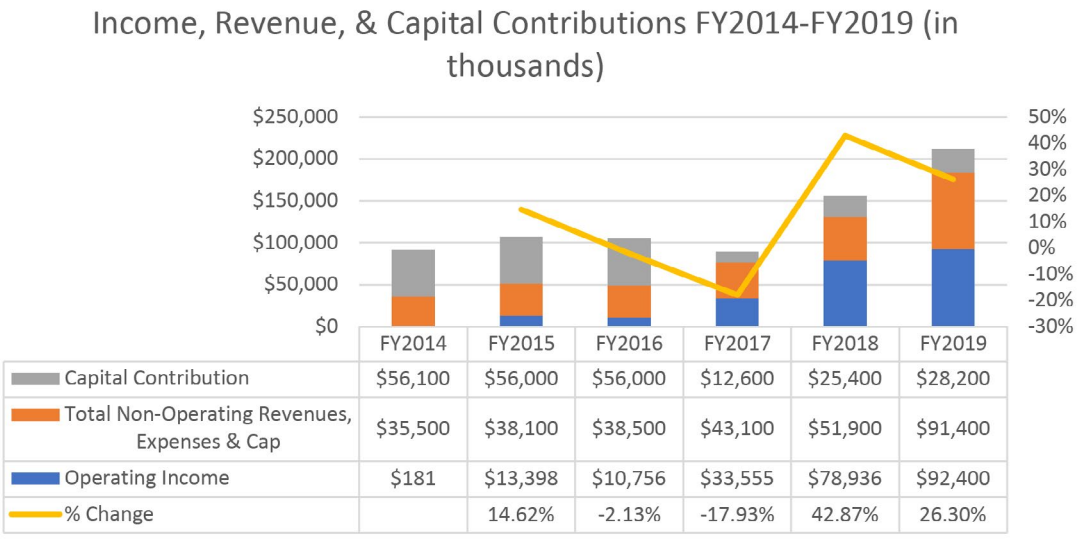
The Condensed Statement of Revenues (Expenses and Changes in Net Position) shows that Operating Revenues continuously outpaced Operating Expenses (including depreciation) for the six-year period studied, and with a significant upward trend. This Net Operating Income increased from $181,000 in FY2014 to $92.4 million by FY2019, an increase overall of over $92 million. In that time period, Operating Revenues increased from approximately $622.4 million in FY2014 to $905.5 million in FY2019, and Operating Expenses increased from approximately $622.3 million to $813.1 million over the same time, respectively.





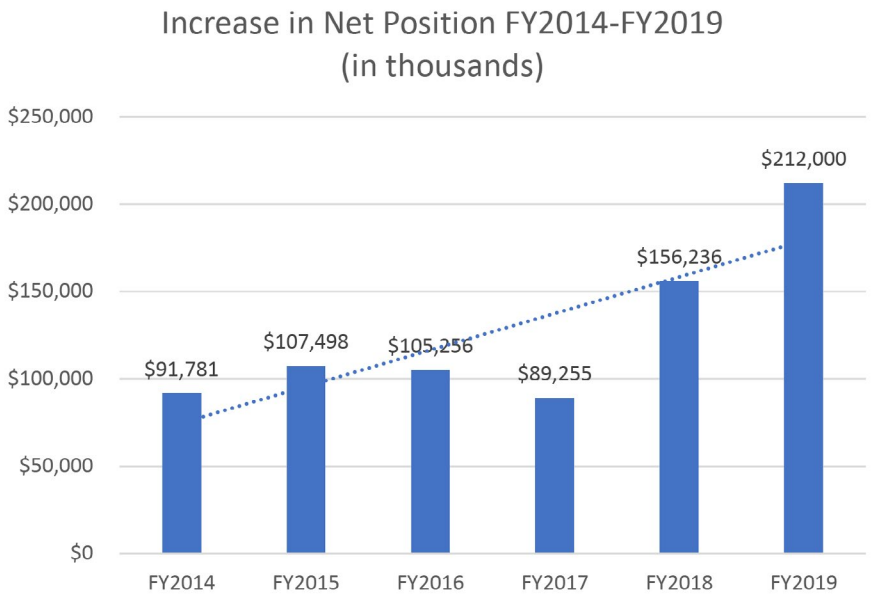
When Net Operating Income is combined with Total Non-Operating Revenues, Expenses, & Capitalization and Capital Contributions, Net Position also increased, although somewhat more unevenly over the six-year period as compared to Net Operating Income alone. Total Non-Operating Revenues, Expenses, & Capitalization had a steady increase of $35.5 million in FY2014 to $91.4 million in FY2019. Capital Contributions, however, seemed to stagnate and decline during this same period. Capital Contributions held between $56.1-$56 million between FY2014-FY2016, only to drop to $12.6 million in FY2017 before slightly more than doubling in the next year and climbing to $28.2 million in FY2019.



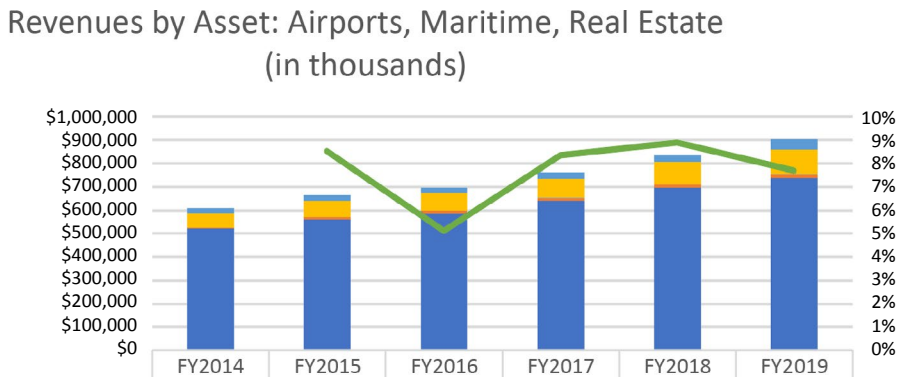


	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Capital Contribution	$56,100	$56,000	$56,000	$12,600	$25,400	$28,200
Total Non-Operating Revenues, Expenses & Cap	$35,500	$38,100	$38,500	$43,100	$51,900	$91,400
Operating Income	$181	$13,398	$10,756	$33,555	$78,936	$92,400
% Change		14.62%	-2.13%	-17.93%	42.87%	26.30%

Combined, these categories created increases in Net Position for every year studied. In FY2014, increase in Net Position was $91.8 million, increasing to approximately $107.5 million in FY2015. In the following two fiscal years, Net Position still increased but at a lower rate: FY2016 produced an increase of approximately $105.3 million and the next year produced an increase of approximately $89.3 million. Gains in FY2018 and FY2019 outpaced previous years: increases in Net Position amounted to approximately $156.2 million and $212 million, respectively. These figures produced a positive change in overall Net Position every fiscal year studied. In FY2014, Massport's beginning of the year Net Position was approximately $1.77 billion – by the end of FY2019, its Net Position overall had increased to approximately $2.376 billion. This represents an overall gain in the six-year period of over $606 million.



Revenue by Location

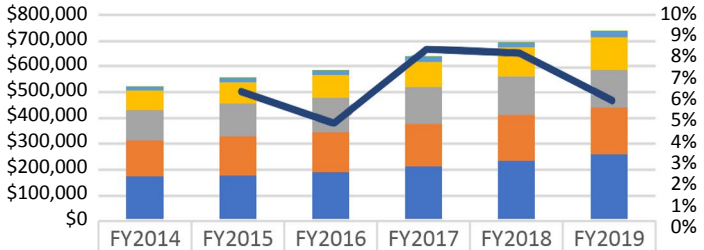


	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Real Estate Revenues	$20,300	$24,000	$22,100	$25,000	$30,500	$46,300
Maritime Revenues	$62,200	$68,500	$74,700	$82,100	$94,400	$102,800
Worcester	$160	$1,600	$1,600	$1,600	$1,800	$3,200
Hanscom	$1,070	$12,100	$12,200	$12,900	$14,300	$14,900
Logan	$524,100	$558,900	$586,500	$639,300	$695,400	$738,100
% Change		8.61%	4.59%	8.38%	9.03%	7.61%

Assessing revenue by location reinforces Logan International Airport's importance as the most significant revenue-generating asset managed by the Massachusetts Port Authority. In each year studied by the Project Team, various revenues collected from Logan made up more than 80% of total revenues produced by Massport facilities, although other revenues grew slightly as a proportion of the total over the course of the study period. In FY2014, Logan brought in over $524 million in revenues, and that figure grew each year ending in over $738 million in FY2019, representing an overall increase in revenue of $214 million over the six-year period. Various Real Estate Revenues more than doubled over this period of time, and Maritime Revenues climbed from $62.2 million in FY2014 to $102.8 million in FY2019.

Logan International Airport's Revenues are largely derived from several categories: Rentals, Parking, Aviation Fees, and Concessions. Logan rental revenues are earned through terminal building, non-terminal building and ground lease agreements. Logan concessions revenues are earned from airport terminal retail operations, on-airport car rental transactions, and the activities of ground transportation and other service providers including taxis, bus, limousine, Ride Apps (Transportation Network Companies), aircraft ground handling, and in-flight catering. Revenues in each of these categories grew significantly over the six-year period measured. Only one category, Grants & Other Miscellaneous, fell over this period. Revenues generated by Rentals grew by $82.9 million between FY2014 to FY2019. Parking revenues grew over the same period by $45.2 million and Aviation-related Fees and Concessions grew their revenues by $26 million and $52.6 million, respectively.

Logan International Airport Aviation Revenues by Type (in thousands)

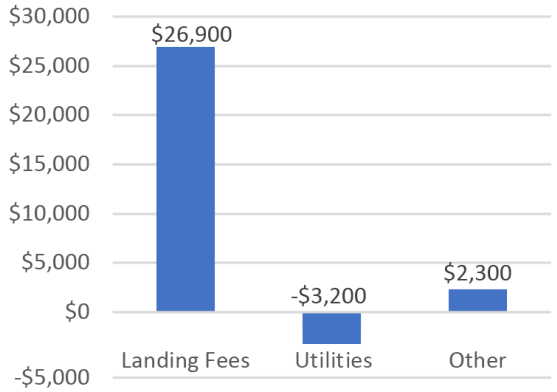


	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Grants & Other	$3,400	$3,800	$2,600	$2,900	$1,900	$1,800
Shuttle Bus	$12,300	$15,700	$18,000	$19,300	$20,300	$21,200
Sub-Total Concessions	$77,200	$81,900	$86,600	$98,000	$113,600	$129,800
Sub-Total Aviation Fees	$119,200	$129,100	$133,700	$138,900	$146,000	$145,200
Parking	$136,300	$148,700	$154,100	$168,900	$180,300	$181,500
Aviation Rentals	$175,700	$179,700	$191,500	$211,300	$233,300	$258,600
% Change		6.23%	4.71%	8.26%	8.07%	5.79%

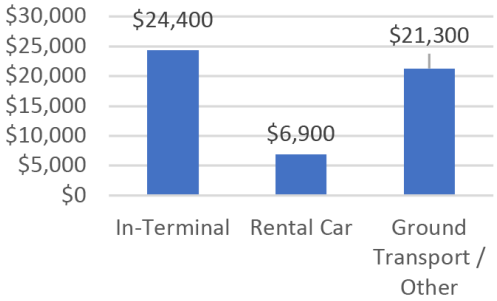
FY2014–FY2019
5 year growth 29%

Within Aviation Fees and Concessions are three subcategories each. Aviation Fees are made up of Landing Fees[4], Utilities, and Other/Misc. Concessions are made up of In-Terminal, Rental Car, and Ground Transport/Other/Misc. For Aviation Fees, Landing Fees made up the highest proportion of growth over the study period at $26.9 million. Between FY2014 and FY2019, Landing Fees grew from nearly $93 million to $119.8 million, and actually helped to offset diminished returns from Utilities, which went from making up $16.8 million in revenues in FY2014 to $13.6 million in FY2019. Other/Misc. revenues went from $9.5 million to $11.8 million over the same period of time. This represents an increase of 28.8%, a decrease of 19%, and an increase of 24.2%, respectively.

Aviation by Revenue Growth FY2014-FY2019 (in thousands)



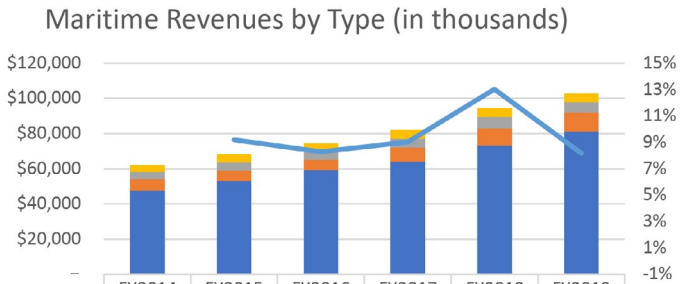
Concessions by Revenue Growth FY2014-FY2019 (in thousands)



[4] For further elaboration on regulatory limits of aviation fees, see here: https://www.faa.gov/airports/airport_compliance/media/airports-rates-charges-policy-with-amendments.pdf.

For Concessions, the In-Terminal category made up the highest proportion of revenues at $24.4 million over the study period, climbing from $31.6 million in FY2014 to $56 million in FY2019, a total gain of approximately $24.4 million. Ground Transport gained nearly $21.3 million over the same span of time, climbing from $17.2 million to $38.5 million over the same span of time. Rental Cars created $28.4 million in revenues in FY2014, climbing steadily to $35.3 million in FY2019. This represents an increase of 77.2%, 123.8%, and 24.3%, respectively.

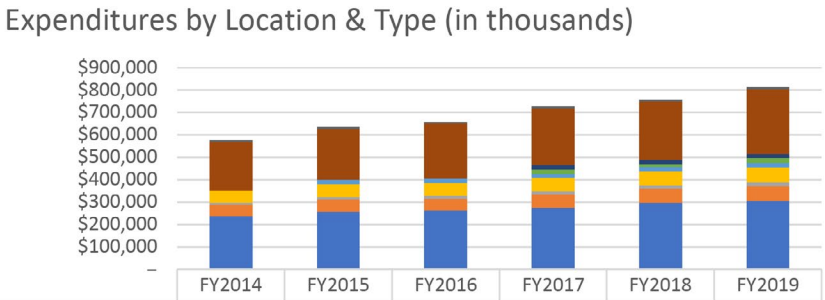
Maritime Revenues are made up of four revenue subcategories: Containers, Cruise, Seafood, and Autoport. Maritime fees, rentals and other revenues are collected primarily from container shipping lines, cruise ship lines and other customers that use the Authority's Port facilities. Containers generated the vast majority of overall revenues at $33.6 million gained over the study period, nearly doubling from $47.5 million in FY2014 to $81.1 million in FY2019. This represents approximately 83% of all revenues for this category of the study period. Each of the other categories experienced modest growth over the same period of time. Maritime revenues collectively grew from $62.2 million to nearly $103 million in FY2019. Real Estate Revenues also grew, more than doubling from $20.3 million in FY2014 to $46.3 million in FY2019.



	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Autoport	$4,200	$4,700	$4,600	$5,000	$5,000	$5,100
Seafood	$4,200	$4,700	$5,000	$5,100	$6,400	$6,000
Cruise	$6,300	$6,200	$5,800	$7,900	$9,900	$10,600
Containers	$47,500	$52,900	$59,300	$64,100	$73,100	$81,100
% Change		9.20%	8.30%	9.01%	13.03%	8.17%

Expenditures by Location

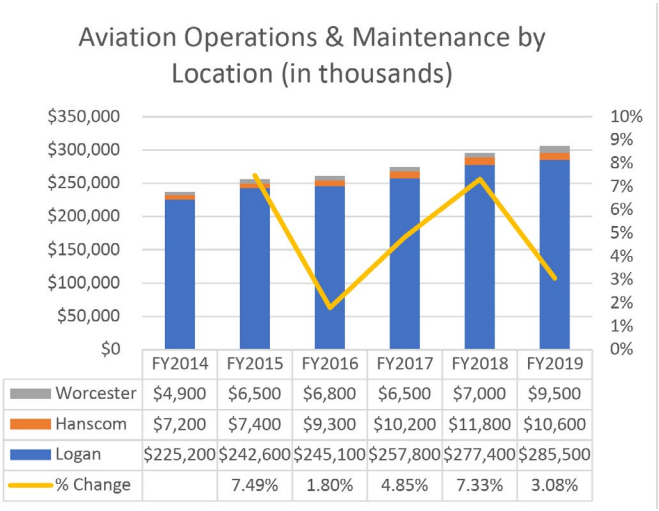
Although some data was missing, the Project Team can account for total locational expenditures for some of the years studied and for most categories in the full six-year time span. Categories include Operations & Maintenance for Aviation, Maritime, and Real Estate holdings, General & Administration, Payments in Lieu of Taxes (PILOT), Pensions, Other Post-Employment Benefits (OPEB), Depreciation/Amortization, and Other. Data was missing for some years for the following categories: PILOT, OPEB, and Pensions.



	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Other	$9,500	$8,000	$7,600	$9,600	$8,400	$8,600
Depreciation/Amortization	$217,800	$227,200	$247,500	$252,800	$262,100	$288,300
Other Post Employment Benefits (OPEB)	$0	$0	$0	$19,200	$20,200	$18,500
Pensions	$0	$0	$0	$19,700	$8,800	$22,200
Payments in Lieu of Taxes	$0	$19,300	$19,400	$19,300	$20,400	$21,300
General & Administration	$53,800	$59,100	$58,100	$59,400	$62,500	$67,200
Real Estate Operations & Maintenance	$9,500	$10,400	$11,900	$13,200	$14,900	$16,900
Maritime Operations & Maintenance	$50,000	$54,200	$53,400	$59,600	$64,000	$64,400
Aviation Operations & Maintenance	$237,300	$256,500	$261,200	$274,500	$296,200	$305,600

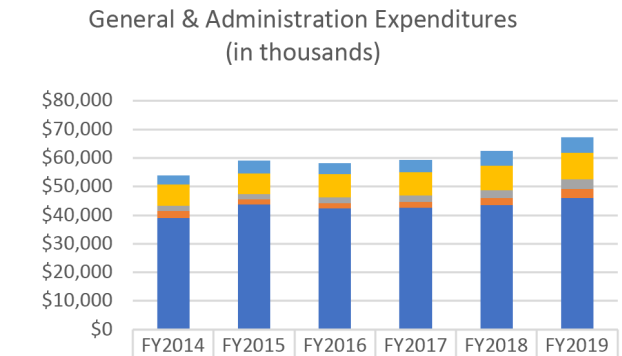
*Some data unavailable (OPEB & Pensions FY2014-FY2016; Payment in Lieu of Taxes FY2014) due to change in CAFR reporting.

Aviation Operations & Maintenance is broken up by locational subcategories: Logan, Hanscom, and Worcester. Just as it was true for revenues generated, Logan International Airport alone accounts for most of the expenses generated by Massport assets. In FY2014, Logan alone accounted for $225.2 million in expenditures, and grew to $285.5 million by FY2019. Overall, Aviation Operations & Maintenance grew over the same period from $237.3 million to $305.6 million, respectively. Maritime Operations & Maintenance grew from $50 million in FY2014 to $64.4 million in FY2019, and Real Estate Operations & Maintenance grew from $9.5 million to nearly $17 million over the same period, respectively.



	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Worcester	$4,900	$6,500	$6,800	$6,500	$7,000	$9,500
Hanscom	$7,200	$7,400	$9,300	$10,200	$11,800	$10,600
Logan	$225,200	$242,600	$245,100	$257,800	$277,400	$285,500
% Change		7.49%	1.80%	4.85%	7.33%	3.08%

General & Administration is further broken out into five subcategories, including Logan, Hanscom, Worcester, Maritime, and Real Estate. Again, Logan stands out as the most significant expenditure category, growing from $39 million in FY2014 to $46.1 million in FY2019. Overall, General & Administration expenditures climbed from $53.8 million to $67.2 million over the same period of time, respectively. Depreciation/Amortization was the second most significant expenditure aside from expenditures related to the maintenance and operations of Logan Airport. In FY2014, this category accounted for nearly $218 million in expenditures, climbing steadily to over $288 million in FY2019.

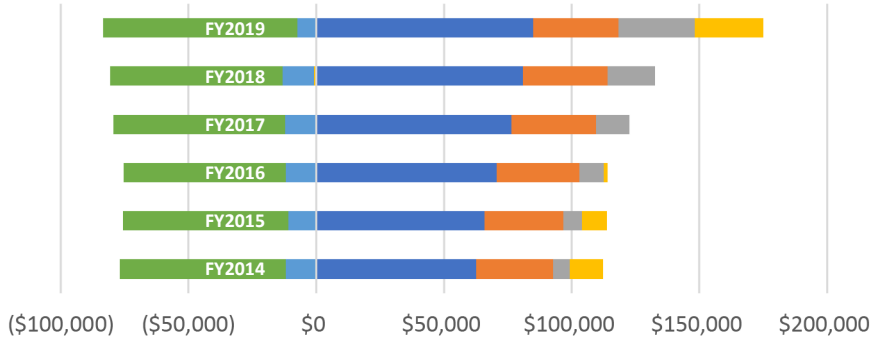


	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Real Estate	3,100	4,600	3,700	4,400	5,300	5,400
Maritime	7,500	7,100	8,200	8,100	8,500	9,200
Worcester	1,800	1,800	2,000	2,300	2,800	3,400
Hanscom	2,400	1,900	1,900	2,100	2,300	3,100
Logan	39,000	43,700	42,300	42,500	43,600	46,100

Non-Operating Revenues & Expenditures

Revenues not directly related to operations were measured for the six-year time span studied. Ultimately, Net Revenue Excluding Capital Contribution grew for each year studied, with a significant jump between FY2018 and FY2019. Over the period of time studied, Net Revenue Excluding Capital Contribution went from $35.5 million in FY2014 to $91.4 million in FY2019, growing approximately $39.5 million – or approximately 157% – between FY2019 and FY2018. These net revenues help compensate for Capital Contributions, which have returns that decline over the period of time studied, starting and holding at approximately $56 million from FY2014-FY2016, declining to $12.6 million in FY2017, and climbing somewhat to $28.2 million by FY2019.

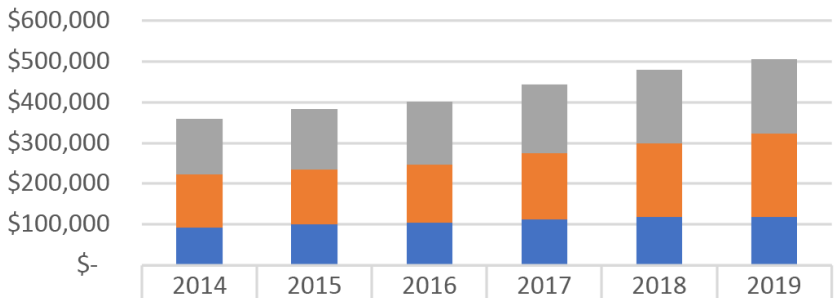
The root of this growth in Net Revenue Excluding Capital Contributions is largely driven by Passenger Facility Charges and Investment Income, although the category Other Income/Expenses overcame declining revenues in FY2014-FY2016 and deficits in FY2017-FY2018 to produce gains of approximately $26.8 million in FY2019. Other Income/Expenses was the only revenue category that produced deficits in any given fiscal year. Net revenues were also aided by a drop in Terminal A Debt Service Contributions, which eventually fell to only $7.5 million in FY2019 from a high $12.2 million in the previous fiscal year.



	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
REV Passenger Facility Charges	$62,700	$65,800	$70,700	$76,300	$81,000	$84,800
REV Customer Facility Charges	$30,000	$30,800	$32,300	$33,100	$33,000	$33,500
REV Investment Income	$6,600	$7,400	$9,500	$13,100	$18,600	$29,800
REV Other Income / Expenses (net)	$13,000	$9,800	$1,500	($300)	($1,000)	$26,800
EXP Terminal A Debt Service Contributions	($11,800)	($10,900)	($11,900)	($11,900)	($12,200)	($7,500)
EXP Interest Expense	($65,000)	($64,800)	($63,600)	($67,200)	($67,500)	($76,000)

Significant Revenues & Related Rates/Charges

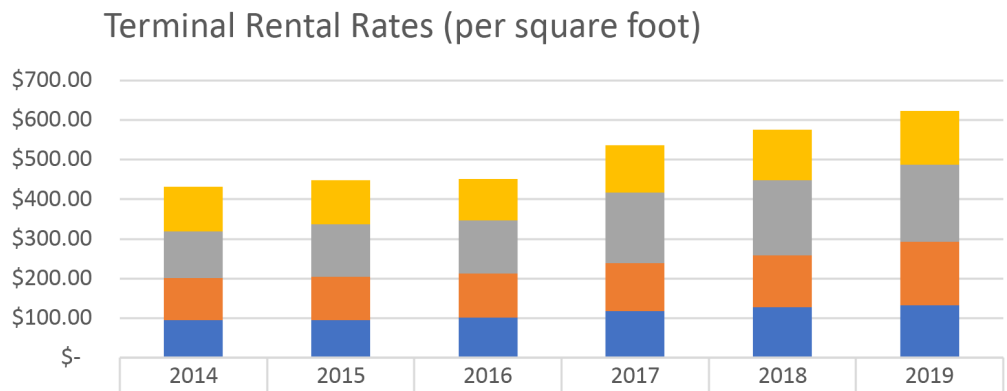
Massport's most significant revenues, rates, and charges were also assessed by the Project Team, ranging from Logan Airport Revenues, Rates and Charges, Terminal Rental Rates, Baggage Fees, and Terminal E Passenger Fees. Logan Airport's Revenues were divided into three major categories, including Parking Fees, Terminal Rentals and Fees, and Landing Fees. Terminal Rentals and Fees grew the most, climbing from approximately $129.4 million in 2014 to $203.8 million in 2019, a net gain of over $70 million. Next were Parking Fees, which increased from $136.3 million to nearly $181.5 million over the same period, respectively. Landing Fees experienced the slowest growth from $92.9 million in 2014 to $119.8 million in 2019.



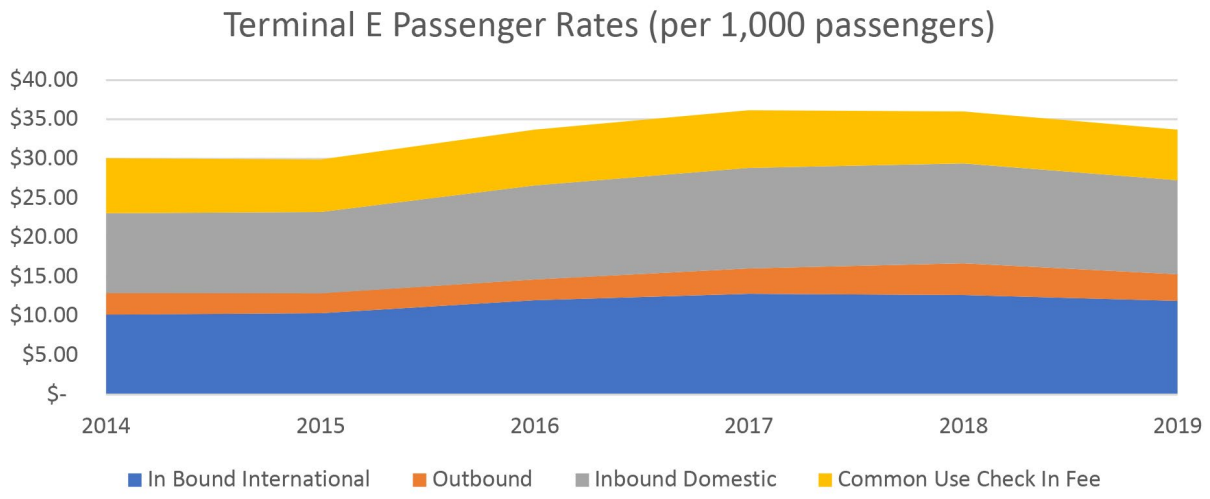
	2014	2015	2016	2017	2018	2019
Parking Fees	$136,307	$148,653	$154,068	$168,919	$180,349	$181,478
Terminal Rentals and Fees	$129,487	$133,897	$142,176	$161,816	$180,331	$203,861
Landing Fees	$92,896	$101,123	$104,489	$113,162	$119,190	$119,847

Logan Airport Landing Fees per 1,000 pounds were $4.57 in 2014, climbing to a high of $4.84 in 2016 before gradually falling to a six-year low of $4.43 in 2019. While these fees actually eventually declined, other rates and fees climbed over the same time period studied. Baggage Fees grew from $1.34 in 2014 to $1.61 in 2019, falling for a period in 2017 before climbing to $1.61 in 2018-2019. Central Parking Garage Fees climbed from $27 in 2014 to $35 in 2019.

Other major revenue generators included Terminal Rental Rates and Terminal E Passenger Fees. Terminal Rental Rates per square foot were divided by Terminal, with A, B, C, and E accounted for. Terminal C – Logan's Main Terminal – stood out with the highest rates consistently, ranging from $118.31 in 2014 and climbing to $194.35 in 2019. Terminal E came second for a time, climbing from $112.66 to $134.91 over the same period, with a slight dip in rates over the 2015-2016 period, at which point Terminal B rates surpassed Terminal E. Terminal B rates ranged from $106.55 in 2014 and climbed to $161.31 by 2019, surpassing Terminal E rates in 2016. Terminal A maintained consistently the lowest rates each year studied, from $93.94 in 2014 to $132.09 in 2019.



	2014	2015	2016	2017	2018	2019
Terminal E - Type 3 Space	$112.66	$111.40	$105.46	$118.51	$128.27	$134.91
Terminal C - Main Terminal	$118.31	$132.79	$134.05	$178.30	$189.91	$194.35
Terminal B	$106.55	$110.63	$110.99	$122.10	$130.74	$161.31
Terminal A (2)	$93.94	$93.99	$101.38	$117.29	$126.98	$132.09

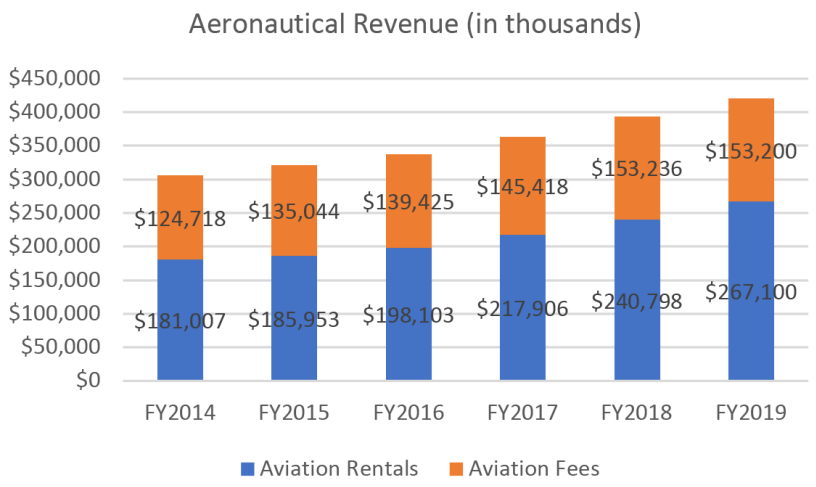


Terminal E Passenger Rates, as a whole, climbed to highest in FY2017-FY2018 before falling again slightly. Both Inbound International and Domestic Rates mirror each other, starting at $10.17 in FY2014 and climbing to a high of $12.82 in FY2017, only to fall to $12.70 in FY2018 and $11.89 in FY2019. Outbound Rates started at $2.74 in FY204, falling to $2.52 in the next fiscal year before climbing to a high of $4.00 in FY2018, only to fall in FY2019 to $3.45. Common Use Check In Fees began in FY2014 at $7.00 before experiencing a slight dip to $6.67 the next year, climbing to a high of $7.34 in FY2017 before falling to a low of $6.44 in FY2019.

Operating Revenue by Category

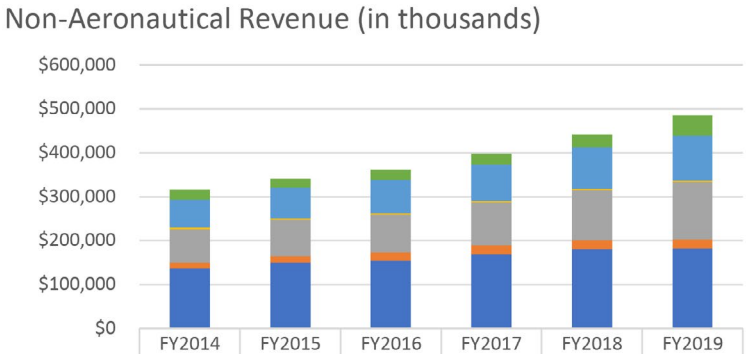
Operating Revenues were divided into two major categories, and several subcategories below those: Aeronautical and Non-Aeronautical.

Among Aeronautical Revenue, there were two subcategories. Aviation Rentals made up the larger of the two revenues consistently, ranging from $181 million in FY2014 to $267.1 million in FY2019. Aviation Fees climbed over the same period of time from $124.7 million to approximately $153.2 million in FY2019, slightly lower than FY2018 at $153.2 million.



FY2014–FY2019
5 year growth 27%

Non-Aeronautical Revenues were made up of six subcategories: Aviation Parking, Aviation Shuttle Bus, Aviation Concessions, Aviation Operating Grants and Other, Maritime Fees, Rentals, and Other, and Real Estate Fees, Rentals, and Other. The highest revenues in this category were Aviation Parking, which climbed from $136.7 million in FY2014 to $182.1 million in FY2019. This was followed by Aviation Concessions, which climbed from $77.8 million to $130.8 million over the same time. Maritime Fees, Rentals, and Other types of revenues were the third-highest proportion of Non-Aeronautical Revenue, climbing from $62.1 million to $102.8 million between FY2014 to FY2019.

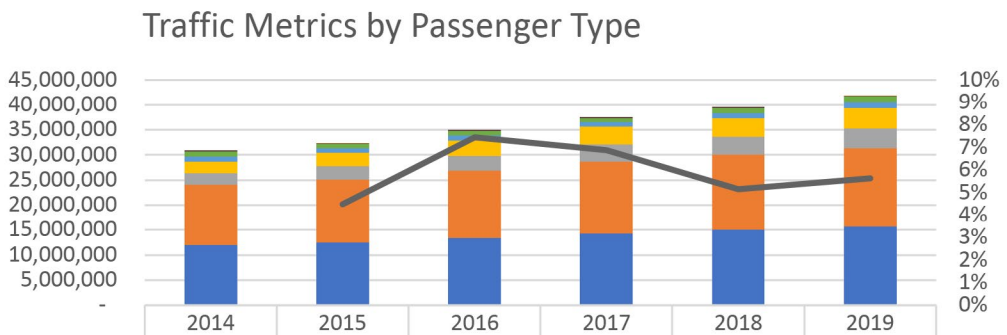


	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Real Estate Fees, Rentals and Other	$23,981	$22,069	$24,534	$25,037	$30,497	$46,300
Maritime Fees, Rentals and Other	$62,148	$68,435	$74,654	$82,088	$94,351	$102,800
Aviation Operating Grants and Other	$3,763	$3,894	$2,781	$2,909	$1,911	$2,000
Aviation Concessions	$77,838	$82,662	$87,401	$98,913	$114,492	$130,800
Aviation Shuttle Bus	$12,283	$15,717	$18,009	$19,278	$20,303	$21,200
Aviation Parking	$136,733	$149,155	$154,568	$169,354	$180,803	$182,100

FY2014–FY2019
5 year growth 35%

Traffic, Other Metrics, & Employees

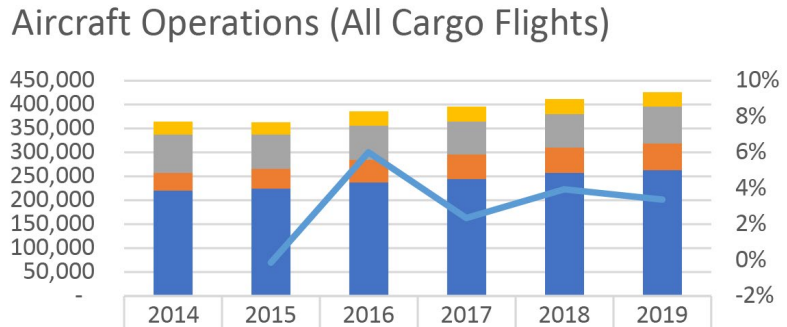
Massport is responsible for moving tens of millions of passengers every year, and those figures grew significantly between 2014 and 2019. Over that period of time, total passengers amounted to more than 30.85 million in 2014 to more than 41.86 million in 2019 – and increase of 35.7% over the study period. These numbers are categorized in several ways. Passenger Traffic and General Aviation represent the two major categories, with Passenger Traffic broken out by International, Domestic, and Regional for both Enplaning and Deplaning. Domestic Travel (including domestic flights on jets and charters) Enplaning and Deplaning represented the vast majority of Total Passengers, with approximately 24 million Domestic Passengers in 2014 climbing to over 31 million Domestic Passengers in 2019 – and increase of 29.1%. International and Regional Passengers also increased over this period of time, climbing from 4.68 million to about 8 million and 2 million to 2.4 million, respectively. This represents an increase of 70.9% and 20%, respectively. Regional Passengers Enplaning and Deplaning dipped between 2014 to 2017, but ultimately climbed in 2018 and 2019. General Aviation Enplaning and Deplaning represented the smallest proportion of Total Passengers, ranging collectively from 95,632 passengers in 2014 to 111,216 in 2019, which is a 16.3% increase.



	2014	2015	2016	2017	2018	2019
General Aviation Deplaned	47,816	47,967	54,883	55,886	56,329	55,608
General Aviation Enplaned	47,816	47,967	54,883	55,886	56,329	55,608
Regional Deplaned	1,021,968	910,348	952,308	871,399	1,028,876	1,204,503
Regional Enplaned	1,011,299	903,180	962,163	881,940	1,030,643	1,200,779
International Deplaned	2,348,399	2,634,590	3,034,210	3,506,567	3,649,730	4,018,879
International Enplaned	2,337,269	2,611,642	3,004,322	3,493,005	3,609,751	4,011,290
Domestic Deplaned	12,045,512	12,591,542	13,466,887	14,348,544	15,079,032	15,696,004
Domestic Enplaned	11,990,184	12,551,985	13,368,762	14,257,124	14,995,819	15,620,740
% Change		4.49%	7.45%	6.86%	5.15%	5.63%

FY2014–FY2019
5 year growth 26%

Other metrics, like Aircraft Operations and Landing Weights were also measured over the study period. Domestic flights account for the most significant share of totals, climbing gradually from 219,534 in 2014 to over 263,545 in 2019, and increase of approximately 20%. International flights also climbed during this period, from 38,059 in 2014 to 54,736 in 2019, an increase of 43.8%. Regional flights accounted for unsteady growth, dipping in 2016 to 68,223 before growing to 77,809 in 2019. This represents a slight decrease from their 2014 high of 79,983 and represents an overall decline of 2.7% over the study period. Aircraft Landing Weights increase proportionally to overall Aircraft Operations, climbing from over 20.2 million in 2014 to about 26.5 million in 2019 – an increase of about 31.2%.



	2014	2015	2016	2017	2018	2019
General Aviation	26,286	26,114	30,026	31,300	31,186	30,420
Regional	79,983	71,233	72,416	68,223	71,198	77,809
International	38,059	41,084	46,687	51,500	52,483	54,736
Domestic	219,534	224,928	237,479	244,857	257,296	263,545
% Change		-0.14%	6.01%	2.34%	3.95%	3.36%

FY2014–FY2019
5 year growth 15%

Massport's growing revenues, expenditures, and volume of transportation are reflected in the growing number of people the organization employs. Between 2014 and 2019, Massport's number of employees grew from 1,173 to 1,330, representing a cumulative increase of 157 employees. The vast majority of employees work at Logan International Airport, and much of the employee growth for the time measured occurred there. Of the 157 new jobs created by Massport, 112 of them were created at Logan. General Administration saw the second largest increase in employees, growing from about 300 in 2014 to 346 in 2019. Maritime and Hanscom Field each had a net gain of one job over the course of the time measured, and Worcester Airport actually shed employees over the same period

	2014	2015	2016	2017	2018	2019
General Administration	300.5	311.5	318.0	322.0	336.0	346.0
Maritime	121.0	115.5	120.5	121.0	119.0	122.0
Worcester Airport	26.5	32.0	31.0	32.0	33.0	24.0
Hanscom Field	18.0	19.0	19.0	18.0	19.0	19.0
Logan Airport	707.0	725.0	750.5	780.0	777.0	819.0

Peer Review: Practices Related to Aviation Revenue and Marketing Incentives

Review Approach

The review of practices related to aviation revenues and marketing incentives was performed in two parts. First the Spy Pond Project Team conducted a brief literature review to collect data on airport practices described in recent publications and to identify airports of particular interest either based on their specific practices or given their similarities to Massport's Logan Airport. Results from the literature review are described in the next section.

Second, the Spy Pond Team interviewed a set of Massport's peers to obtain additional information about their specific practices. Prior to conducting the interviews, the Spy Pond Project Team worked with the Massport CAC and the Collins Center Team to develop an interview guide and identify airports to contact for the interviews. Also, the team incorporated information from the review and initial discussions with Massport regarding the project to identify areas of specific concern for the interviews. The resulting interview guide is included as Appendix A. It includes questions on two basic topics: aviation revenue and marketing incentives. The guide also poses additional questions exploring the impacts of the COVID-19 pandemic and other notable airline practices.

Following development of the interview guide, the Project Team contacted staff from the selected set of airports to request their participation in the peer interviews. In each case the team provided airport staff with a copy of the interview guide and requested their participation in a one-hour telephone interview. The team contacted staff at seven airports and ultimately completed interviews with six of these. Five of the interviews were conducted by phone, and one was handled through written communications only.

Following each telephone interview, the Project Team prepared written notes and sent the notes to airport staff participating in the interview for review. Copies of the resulting notes for each interview are included in Appendix B.

Literature Review

The literature review conducted for the project yielded a set of useful references regarding aviation revenue and marketing incentives, as well as information on practices of specific airports. The paragraphs below describe the key references reviewed. Information on practices of specific airports were used to help develop the interview guide and determine what airports to interview. Specific relevant practices are discussed further in the next section.

For U.S. airports, a key reference regarding aviation revenue and marketing incentives is the *Federal Aviation Administration (FAA) Airport Compliance Manual*.[5] This document outlines policies and procedures for airports and airport sponsors to undertake in order to maintain compliance with Federal legislation and regulations. Chapter 15 of this document details permitted and prohibited uses of aviation revenue for U.S. airports. The guidance provided in this chapter supplements FAA's 1999 *Revenue Use Policy* providing specific requirements on this topic.

Chapter 15 summarizes the legislative history regarding airport revenue, defines what constitutes "airport revenue," and discusses the allowed uses of this revenue. Generally, the guidance is intended to allow for uses of revenue that provide a direct benefit to the airport and disallow other uses. The document discusses that are a number of cases in which specific uses of airport revenue outside of FAA guidance are "grandfathered in" as they were established prior to enactment of the 1982 Airport and Airway Improvement Act (AAIA). The document lists the airports with grandfathered-in revenue uses, including Massport. This list has been revised over time.

The Government Accountability Office (GAO) recently reviewed which airports have grandfathered in revenue diversion uses and discussed the potential impact of repealing those agreements.[6] This document notes that, in the case of Massport, the agency makes payments in lieu of taxes (PILOT) to the cities of Chelsea, Winthrop and Boston. Also, Massport can divert aviation revenue to cover maritime expenses, including debt service on bonds for maritime projects. The amount of revenue diverted is limited to be no greater than the amount diverted as of 1982, adjusted for inflation.

Chapter 15 also outlines how revenue may be used for incentives. Promotional fee waivers, also called marketing incentives, are included in the permitted uses of revenue as long as the incentive is provided to all qualifying, "similarly situated" airlines and the waivers do not increase costs for other carriers.

Chapter 18 of the FAA Airport Compliance Manual provides guidance on airports rates and charges. This chapter describes three models airports may use for setting rates: compensatory, residual, and hybrid. These are summarized in the sidebar on the next page. Massport uses a compensatory rate structure. This is the most straightforward approach, and can be used without reaching special agreements with air carriers. With a compensatory approach, the airport sponsor assumes all liability for airport costs and retains all revenue. Air carriers are charged for the facilities they use, but are under no obligation to pay additional charges in the event there is a revenue shortfall. By contrast, with a residual approach the airport sponsor reaches agreement with air carriers to use nonaeronautical airport revenue (e.g., terminal concessions, parking, ground transportation, etc.) to reduce air carrier fees. At the same time, the carriers agree to cover any shortfalls if the nonaeronautical revenue is insufficient for covering costs. A hybrid structure employs elements of both a residual and compensatory model. With a hybrid approach the airport sponsor may agree to use nonaeronautical revenue to reduce fees to some extent (e.g., through a revenue sharing agreement) and/or may limit the degree to which air carriers must cover any revenue shortfalls.

[5] *FAA Airport Compliance Manual*. Federal Aviation Administration. FAA, 2009. Accessed March 18, 2021. https://www.faa.gov/documentLibrary/media/Order/5190_6b.pdf.

[6] *Airport Funding: Information on Grandfathered Revenue Diversion and Potential Implications of Repeal*. Government Accountability Office. GAO, 2020. Accessed March 21, 2021. https://www.gao.gov/assets/710/709185.pdf.

Airport Rate Models

Compensatory: a compensatory agreement is one in which a sponsor assumes all liability for airport costs and retains all airport revenue for its own use in accordance with federal requirements. Aeronautical users are charged only for the costs of the aeronautical facilities they use. **A compensatory rate structure may be imposed on users by ordinance.**

Residual: agreements that permit aeronautical users to receive a cross-credit of nonaeronautical revenues are generally referred to as residual agreements. In a residual agreement, the airport applies excess nonaeronautical revenue to the airfield costs to reduce air carrier fees; in exchange, the air carriers agree to cover the any shortfalls if the nonaeronautical revenue is insufficient to cover airport costs. In a residual agreement, aeronautical users may assume part or all of the liability for nonaeronautical costs...**A residual rate structure may be accomplished only with agreement of the users.**

Hybrid: sponsors frequently adopt rate-setting systems that employ elements of both residual and compensatory approaches. Such agreements may charge aeronautical users for the use of aeronautical facilities with aeronautical users assuming additional responsibility for airport costs in return for a sharing of nonaeronautical revenues that offset aeronautical costs.

Source: FAA Airport Compliance Manual

A second FAA publication provides additional detail on marketing incentives, *Air Carrier Incentive Program Guidebook: A Reference for Airport Sponsors*.[7] This guidebook details how to structure an Air Service Incentive Program (ASIP), and what costs the incentives may and may not cover. It describes that airports may waive certain fees for new service for a period of one to two years. Fees that may be waived include landing fees, terminal rental and other rental fees, and fuel flowage fees. The incentive period is limited to one year if the incentive is granted only to new market entrants, and two years if the incentive is offered to all carriers. Also, incentives may include marketing fees as long as these are used to market the new service and are not "destination marketing." This document further describes that the requirements apply to use of airport revenue for incentives; airports may offer additional funds outside of their airport revenue to offer additional incentives.

Three Aviation Cooperative Research Program (ACRP) publications provide additional detail on aviation revenue and marketing incentives. ACRP Legal Research Digest (LRD) 2 discusses the laws related to diversion of airport revenue and the theory underlying these laws.[8] It discusses allowable and unallowable uses of airport revenue, and various lawsuits that have further established the limits on revenue diversion. ACRP LRD 40 was published in 2020.[9] It updates ACRP LRD 2, discussing developments in airport revenue use since ACRP LRD 2 was published in 2008. It provides a set of hypothetical examples illustrating potential uses of airport revenue, such as for capital projects that improve airport access and related to privatization of airport operations.

ACRP Report 218 details approaches to establishing aviation marketing incentives.[10] This report discusses different types of incentives, including incentives offered by airports and additional community incentives. The report describes that use of incentives has become more common in recent years. For large and medium hub airports it's increasingly common to offer incentives for new international service. Also, there is increased interest in offering community incentives. Given these are paid using other sources of revenue besides airport revenue, airports and communities have greater flexibility in offering these incentives.

[7] Air Carrier Incentive Program Guidebook: A Reference for Airport Sponsors. Federal Aviation Administration (FAA), 2010. Accessed March 18, 2021. https://www.faa.gov/airports/airport_compliance/media/air-carrier-incentive-2010.pdf.

[8] *ACRP Legal Research Digest 2: Theory and Law of Airport Revenue Diversion*. Dempsey, P. Transportation Research Board (TRB), 2008. Accessed March 18, 2021. https://www.nap.edu/download/23092.

[9] *Legal Research Digest 40: Permissible Uses of Airport Property and Revenue*. Kirsch, P.; Alexander, C. Transportation Research Board (TRB), 2020. Accessed March 18, 2021. https://www.nap.edu/download/26011.

[10] *ACRP Report 218: Building and Maintaining Air Service Through Incentive Programs*. Ballard, D.; Weingart, D.; Garrow, L; Herring, J.; Mills, R.; Burns, W.; Rex, J.; and Caniglia, M. TRB, 2020. Accessed March 18, 2021. https://www.nap.edu/download/25758.

ACRP Report 218 is supplemented by a web-based system detailing incentives offered by airports across the U.S. as of the time the report was published in early 2020. The system is maintained by Bowling Green University and available at the following URL: https://arcg.is/vKmyr.

One additional paper has further detail on airport incentive programs. In "Incentivize It and They Will Come? How Some of the Busiest U.S. Airports Are Building Air Service with Incentive Programs" Ryerson describes the rules governing ASIPs and how effective incentive programs are for recruiting and retaining routes among hub, large, medium, and small airports.[11] Ryerson concludes that while ASIPs work well for large airports, attracting flights with an average retention rate of 77%, they do not provide the same benefits to medium and small airports. The author recommends that: a) airports should be required to publish details on their ASIP requirements and costs, as these can be difficult to determine; and b) that the FAA loosen restrictions on how non-aeronautical revenue is used to provide communities with other options for encouraging economic growth besides ASIPs.

[11] *Incentivize It and They Will Come? How Some of the Busiest U.S. Airports Are Building Air Service with Incentive Programs*. Ryerson, M. Journal of the American Planning Association, Volume 82 No. 4, 2016.

Interview Findings

Overview

This section details finding of the six peer interviews conducted as part of the project. Appendix A reproduces the guide used for the interviews. Appendix B provides notes on each interview. Table 1 lists the six interviews conducted as part of the effort. All of the interviews were conducted by phone, with the exception of the interview with Los Angeles International Airport (LAX). In this case airport staff completed responses to the interview questions in writing, and the project team provided follow-up questions through email.

Table 1. Airport Interviews

Airport Owner	Airport	Primary Contact	Interview Date
Atlanta Department of Aviation	Hartsfield-Jackson Atlanta International Airport (ATL)	Myrna White	December 16, 2020
City and County of Denver	Denver International Airport (DEN)	George Karayiannakis	January 27, 2021
Los Angeles World Airports	Los Angeles International Airport (LAX)	Becca Doten	January 28, 2021
City of Philadelphia	Philadelphia International Airport (PHL)	Adam Mitchell	December 3, 2020
Port of Seattle	Seattle-Tacoma International Airport (SEA)	Kazue Ishiwata	January 11, 2021
City and County of San Francisco	San Francisco International Airport (SFO)	Melissa Andretta	January 6, 2021

It is important to note that all of the interviews were conducted in the midst of the COVID-19 pandemic. Each of the airports participating in the interviews has been severely impacted by the pandemic. In all cases flights and revenues dropped significantly at the start of the pandemic in March 2020, and are expected to remain below pre-pandemic levels for some time even after the pandemic ends. Each airport has made significant adjustments to its financial plans as a result. In responding to the interview questions, most participants described their "business as usual" approach reflecting pre-pandemic conditions, and then described additional steps that have been taken as a result of the pandemic.

In addition to conducting the above interviews members of the project team met with Massport to obtain Massport perspectives on the topics addressed in this review. This meeting was held at Massport on February 7, 2020 (prior to the start of the COVID-19 pandemic). Prior to the meeting Massport staff provided written responses to a number of initial questions posed by the project team.

The following paragraphs summarize the interview findings with respect to aviation revenue and marketing incentives.

Aviation Revenue

The interview guide includes a set of six questions specifically on the topic of revenue. These address how aeronautical and non-aeronautical rates and fees are structured, uses of non-aeronautical revenue (either to reduce landing fees or for non-airport uses), recent changes in rates and fees, and funding for noise mitigation and abatement activities. The following paragraphs summarize the findings in each area.

Documentation of Rates and Fees

Each of the airports interviewed provides documentation of its aeronautical rates and fees on its website. Many also publish information on their non-aeronautical rates and fees, though this is less common as a result of the fact that many non-aeronautical fees are set through complicated contracts. Table 2 summarizes the documentation for each airport interviewed, summarizing the approach used by each interviewee, as well as the approach used by Massport (BOS).

As documented in the table, two airports interviewed – DEN and SFO – provide comprehensive information on both aeronautical and nonaeronautical rates and fees in a readily-accessible format. In other four cases, as well as in the case of Massport, the information on aeronautical fees is published, but nonaeronautical fees are described in varying levels of detail.

Table 2. Publicly Available Documentation of Aeronautical and Nonaeronautical Rates and Fees

Airport	Aeronautical	Non-Aeronautical
ATL	Rates and charges (https://www.atl.com/business-information/investor-relations/)	Parking fees and ground transportation rates are published, but other nonaeronautical rates and fees are not disclosed.
DEN	Rates and charges are published in Part 120 of DEN's Rules and Regulations (https://www.flydenver.com/about/administration/rules_regulations)	Concession operations are included in Part 120. Some additional non-aeronautical fees related to rental car transactions are described in Part 125.
LAX	Rates and charges are in Air Carrier Operating Permit and Tariff/Rate Agreement documents (https://www.lawa.org/-/media/lawa-web/group-and--division/files/air-carrier-operating-permit-acop-lax/landing-fees-at-lax.ashx)	Concession sales are documented online (https://www.lawa.org/lawa-tenants-411/lax-concessions-sales). Other non-aeronautical rates and fees are not detailed.
PHL	Rates and charges are published online. (https://www.phl.org/drupalbin/media/PHLRRAppH_08012019.pdf)	Fees and revenues are not published due to the nature of the arrangements. However, individuals may make a "right to know" request to receive information about specific agreements under Pennsylvania law.
SEA	Rates and charges are all documented on the website. (https://www.portseattle.org/sites/default/files/2020-12/SEA%20Airport%20Tariff%20Effective%20010121_0.pdf)	Fees for nonaeronautical aspects are managed by the respective departments and not available online or in any aggregate form.
SFO	Rates and charges are published on the website and updated each fiscal year (https://www.flysfo.com/sites/default/files/assets/investor/FY20-21_Summary_of_Airport_Charges.pdf)	Nonaeronautical fees are detailed in the rates and charges.
BOS	Rates and charges are summarized in the Comprehensive Annual Financial Report (CAFR) and updated annually. (https://www.massport.com/massport/finance/financial-publications/comprehensive-annual-financial-report-cafr/)	Parking fees and ground transportation rates are published, but other nonaeronautical rates and fees are not detailed.

Uses of Non-Aeronautical Revenue

A key factor that guides how each airport owner approaches their treatment of revenue is their choice of rate model. As described above, the FAA allows for three basic models: compensatory, residual or hybrid. With the compensatory model, the airport sets all rates and charges, and carries all financial risk. With the residual model, the airport owner and air carriers reach agreements for using non-aeronautical revenue to reduce aeronautical costs. At the same time, air carriers commit to covering any airport operating costs unmet by concessions, advertising, parking, and other forms of income. The hybrid model combines aspects of the compensatory and residual models.

Table 3 lists the model used by each airport interviewed, and by Massport, and notes how non-aeronautical revenue is treated. As detailed in the table, two of the airports interviewed – PHL and SEA – use a residual model. For these airports non-aeronautical revenues are used to reduce landing fees and other aeronautical fees. In the other cases non-aeronautical revenue is not used for this purpose, though ATL provides a concession credit to the airlines and SEA uses non-aeronautical revenues to replace aeronautical fees that were waived as a result of incentives.

Table 3. Rate Model Used by Airport

Airport	Rate Model	Treatment of Non-Aeronautical Revenue
ATL	Compensatory	Non-aeronautical revenue is not used to reduce landing fees. Instead, a concession credit is returned to the airlines through terminal rent.
DEN	Hybrid: compensatory for the terminals and residual for the airfield	Non-aeronautical revenue is not used to reduce landing fees.
LAX	Compensatory	Non-aeronautical revenue is not used to reduce landing fees.
PHL	Residual	Non-aeronautical revenue is used to offset a range of different rates and charges including landing fees.
SEA	Hybrid	Non-aeronautical revenue offsets the landing fees waived for airlines receiving incentives.
SFO	Residual	Non-aeronautical revenue is used to offset landing and terminal fees.
BOS	Compensatory	Non-aeronautical revenue is not used to reduce landing fees.

Regarding uses of nonaeronautical revenue for other non-airport purposes, the interviewees noted that doing this is not allowed by FAA, except in cases that the airport has a "grandfathered in" revenue diversion agreement. Massport and two of the airports interviewed have such agreements: DEN and SFO. As noted previously, in Massport's case the grandfathered-in uses include PILOT for Chelsea, Winthrop, and Boston and covering maritime expenses, including debt service on bonds for maritime projects.

At DEN, the City of Denver diverts a portion of the aviation fuel tax for other uses ($0.02 per gallon). SFO makes an annual payment, amounting to 15% of concessions of at least $5 million, to the City of San Francisco in exchange for the services the city provides. The GAO report summarizes revenue diversions by airport from 1995 to 2018.[12] This report calculates that from 1995 to 2018 DEN diverted an average of approximately $7.6 million per year, SFO diverted an average of $27.3 million per year. By comparison, the same report describes that over this period Massport diverted an average of $35.1 million per year, primarily for PILOT, though the other sources are not articulated. In 2018 DEN diverted $9.9 million and SFO diverted $46.5 million. By comparison, for 2018 Massport had a revenue diversion cap of $71.0 million and diverted approximately $61.6 million. Based on Massport's financial reports, the total of Logan-related PILOT for 2018 was $18.2 million.

[12] *Airport Funding: Information on Grandfathered Revenue Diversion and Potential Implications of Repeal*. Government Accountability Office (GAO), 2020. Accessed March 21, 2021. https://www.gao.gov/assets/710/709185.pdf.

Changes in Rates and Fees

The major issue that all airports face is recovering from the COVID-19 pandemic. Interviewees described that the pandemic caused significant reduction in their revenues, and that they typically expect that it will take two to three years to rebuild revenue to pre-pandemic levels.

Table 4 summarizes changes to rates prior to the pandemic, and in response to it. The team's interviews with Massport were conducted prior to the pandemic, so details of Massport's response to the pandemic are not detailed here.

Prior to the COVID-19 pandemic one of the airports interviewed, SEA, had changed its fee structure for Transportation Network Companies (TNCs) to charge for incoming and outgoing trips. Other airports noted that they routinely reviewed their rates and fees, or reviewed these periodically upon the expiration of existing agreements. As a result of the pandemic, five of the six airports had made some changes to their non-aeronautical rates and fees, and the sixth (PHL) was in the process of evaluating potential changes. The most common change made in response to the pandemic was to defer rent payments and waive minimum annual guarantee (MAG) requirements airport concessions. Representatives of DEN and LAX described that their airports also deferred rates and fees for airlines. For instance, DEN has offered a deferral of up to five years on 25% of all fees, to be paid with interest at the end of the deferral period. Note that airports with a residual model have limited flexibility for changing their rates and fees, and any result reduction in rates and fees must be paid by the air carrier, reducing the incentive to make changes.

Table 4. Recent Changes to Rates and Fees

Airport	Pre-Pandemic Changes	Pandemic-Related Changes
ATL	None noted.	Reduced parking rates, decrease concession rent, waive concession fees, and offer an extension to existing agreements. The City of Atlanta passed legislation to support the concession relief.
DEN	None. Fees are evaluated and adjusted at the end of their agreement period.	Rate deferrals to airlines, deferring April, May, and June 2020 charges until the end of the year. For 2021, 25% of all fees may be deferred with interest for up to 5 years. Concessions tenants relieved of their MAG and only pay a percentage of their sales.
LAX	None noted.	Deferred charging new landing fee rates for July – December 2020. The new landing fees went into effect for January – June 2021.
PHL	Fees are re-evaluated whenever an agreement approaches its expiration date.	The airport has reviewed and considered all requests to change the fee structure, but at the time of the interview has yet to make changes.
SEA	Recently began charging TNCs for incoming trips as well as outgoing.	The airport is not considering changes to rates and charges. Airport dining and retail has deferred rent and waived some MAG requirements.
SFO	Fee schedule updated annually, though no major changes under consideration.	No significant adjustment to airline fees, but have suspended some concession fees and offered tenant rent relief.

Noise Abatement and Mitigation Activities

One question included in the guide addresses sources of funding for different noise abatement activities. Interviewees described that they used different revenue sources for noise abatement and mitigation, including FAA grants, passenger facility charges (PFCs), other aeronautical revenues, and local funding. Table 5 lists the funding sources for Massport and each of the airports interviewed.

As documented in the table, all but two of the interviewees reported using a mix of federal and local funds for noise abatement and mitigation. LAX described using PFCs and department funds without specifying whether this includes federal funds. DEN declined to provide details. Massport's approach to funding noise abatement and mitigation is representative of the approach used by other airports. On its website Massport describes that it relies on federal grants for soundproofing homes determined to lie within an FAA-approved noise contour line that establishes the annual average noise from aircraft at a given location. Massport matches its federal grants with other funds. Other costs associated with noise abatement and mitigation (e.g., staff salaries and costs of outside consultants) appear to be classified as general and administrative expenses in Massport's financial reports.

Table 5. Sources of Funding for Noise Abatement and Mitigation Activities

Airport	Funding Sources
ATL	Spends $5-10 million a year on noise mitigation. FAA funds 80% of these activities with the remainder covered by passenger facility charges (PFCs).
DEN	Not available.
LAX	Provided through PFCs and department funds.
PHL	Noise mitigation is funded through capital programs and FAA grants.
SEA	Noise insulation expenses are sourced from the airfield movement area cost center and recovered through landing fees. FAA grants and occasionally funds from the Port of Seattle are also used for noise mitigation.
SFO	Uses federal and local funds.
BOS	Uses federal and local funds.

Marketing Incentives

The interview guide includes a set of eight questions specifically on the topic of marketing incentives. These address the overall approach used for marketing incentives, the success of the airport's incentives, and the documentation available on the airport's incentives program. The following paragraphs summarize the findings in each of these areas.

Use of Incentives

The airports interviewed illustrate a variety of different approaches for use of marketing incentives. To some extent, this is by design: in selecting airports to interview the Project Team worked with Massport CAC to identify a range of different airports with different approaches and different challenges. Nonetheless, the range of approaches is illustrative of the range in current practice described in ACRP Report 218.

Table 6 summarizes the basic approach each interviewee (and Massport) uses for marketing incentives. As noted in the table, Massport and four of the airports interviewed have incentive programs. In three cases – DEN, PHL and SEA – incentives are offered for both international and domestic service, while in the case of Massport and SFO incentives are offered strictly for new international service. Where incentives have been established, they all follow the basic structure described by FAA,

combining waiving landing fees for up to two years with marketing support. If the service being incentivized ends before the end of the incentive period, then the air carrier must refund waived fees.

Two of the airports interviewed – ATL and LAX – do not have an incentive program at present. ATL previously offered incentives for new international service, but this program expired in 2019 and has not been renewed. LAX has never established marketing incentives. ATL staff reported that the airport's prior international incentives were not renewed due to limited gate capacity. LAX representatives described that the airport had never offered incentives given the airport was already operating near its capacity without them prior to the pandemic.

Notable practices discussed in the interviews include the following:

- Several of the airports interviewed are considering increasing their use of incentives and/or restructuring their incentives in response to the pandemic. One airport, PHL, has developed an updated program to encourage increased service in response to the pandemic. In July 2020 PHL initiated the COVID-19 Air Service Recovery and Incentive Program (CASRIP). The program offers incentives for new international, domestic and freight service, expanding on PHL's prior incentive program targeting new international service only. The incentives apply to service added since April 1, 2020. The program is paid for in part by a grant from the Commonwealth of Pennsylvania. PHL received the grant prior to the pandemic and was subsequently authorized to repurpose the grant to help fund the updated incentives program.
- DEN handles incentives as operational offsets. Air carriers may choose to apply the incentive funds to their fees and/or marketing assistance.
- Representatives from SFO described additional marketing assistance provided to air carriers beyond that provided through the incentive. Specifically, SFO assists carriers through social media marketing, and in some cases uses the same provider for marketing assistance as the City of San Francisco, enabling coordination of additional marketing activities.

In addition to using marketing incentives, the airports interviewed have established other forms of airline incentives that are notable, but are not technically marketing incentives. Specifically:

- SFO incentivizes the use of sustainable airline fuels through a memorandum of understanding (MOU) developed in 2018. The agreement expands the use of sustainable aviation fuels by engaging airlines and fuel suppliers in a commitment to increase their consumption of alternative, low-carbon jet fuel. Presently, 9 out of 25 airlines operating at SFO have signed the agreement.
- Several of the airports interviewed have established programs to incentive air carriers to reduce noise, though this was not the focus of the interviews. For example, in early 2020 LAX established the Fly Quieter Program.[13] The program scores air carriers on their efforts to minimize noise, awarding points for elements such as the quietest arrivals, quietest fleets, early turns, East departures (which have a greater noise impact at LAX), engine run-ups, and additional bonus elements. The incentives offered through program are non-financial: LAX will give awards and recognition to the carriers most successful in minimizing noise.

13 LAX Fly Quieter Program. Los Angeles World Airports (LAWA), 2020. Accessed March 19, 2021. https://www.lawa.org/-/media/lawa-web/noise-management/files/fly-quieter-program-files/lax-fly-quieter-program-flyer-final-for-web-page.ashx.

Table 6. Airport Marketing Incentives

Airport	Incentives Offered	Summary of Incentives	Additional Notes
ATL	None	N/A	Previously offered incentives for international service. Reviewing options for new incentives to restore service.
DEN	International and domestic	International: $2 million for destinations in North America, the Caribbean and Central America; $6 million for other destinations. Domestic: $1 million for new entrants, $250 for new destinations.	Incentive period is 12 to 24 months depending on the type of service. The incentive is provided as an operational offset that can be used for landing fees and/or marketing.
LAX	None	N/A	Conducting a formal analysis of the benefits of an incentive program to promote recovery.
PHL	International, domestic and cargo	Separate incentive levels defined for new entrants and unserved routes for international (further divided into three levels) and domestic service, as well as for new cargo routes, new cargo entrants and increased landing weight for cargo. Greatest incentive is for unserved Level 3 international destinations, with fees waived for 2 years and marketing support of $1.5 million.	Developed new CASRIP in July 2020 to restore service, adding new incentives for domestic and freight service. Using Commonwealth of Pennsylvania funding to support the incentives.
SEA	International, domestic and cargo	Separate incentive levels defined for new entrants and unserved routes for international, domestic and cargo service. Greatest incentive is for unserved international destinations greater than 4,000 miles away, with landing fees and inspection area fees waived for 2 years and marketing support of $0.5 million.	Using social media marketing to help restore service but not offering other incentives related to pandemic recovery.
SFO	International	Incentive offered for new international service. Landing fees waived for 2 years and marketing support of $100,000 per new flight.	Provides extensive social media marketing support. Coordinates with the City to provide additional marketing. Evaluating additional incentives for domestic service.
BOS	International	Incentive offered for new international service. Landing fees waived for 2 years (100% first year, 50% second year) and marketing support of $200,000-$300,000 per new flight.	Incentives are targeted for regions not previously well served, including Asia, Africa, the Middle East and Central/South America.

Effectiveness of Marketing Incentives

All of the airports that currently have incentive programs reported that in their experience marketing incentives are successful in attracting new air service. Key indicators of success discussed described during the interviews include:

- Increases in number of new flights added (prior to the start of the pandemic).
- Feedback/interest in the incentives from air carriers.
- Retention of new service. The interviewees described that they typically had been successful in retaining new service after the end of the incentive period.
- Increases in flight frequency or "gauging-up" of flights beyond that stipulated by the incentive agreement.
- Attraction of additional service to a given route once one air carrier has "tested the waters" by establishing the route through an incentive.

While interviewees responded that they felt marketing incentives had been successful, several noted that it may be difficult to establish whether a given service would have been introduced in the absence of an incentive.

Several of the interviewees described that they perform formal analyses either as part of the process of offering an incentive, or in determining how to structure the incentive program. Typically, the analysis is performed when the incentive program is established, given airports must offer incentives to all air carriers once a program has been established.

PHL performs two types of analyses for each application for an incentive: a business case analysis and an economic impact analysis. The business case analysis focuses on the airports' direct costs and benefits resulting from the service and proposed incentives. The economic impact analysis studies the broader economic benefits of the additional air service to the Philadelphia community.

DEN conducts a formal analysis on an annual basis. Their analyses are forward- and backward-looking, determining both the amount of money spent and whether the service was retained. Through their analysis, DEN documents a correlation between the amount of money spent on incentives and the total number of destinations served by the airport.

SEA conducted a formal analysis of its incentive program in 2016 and adjusted the program at that time. For the analysis, the Port of Seattle created a financial model, identifying and comparing projected revenue with and without the incentive program. Separately, the Port of Seattle periodically performs economic impact analyses to demonstrate the impact of additional air service.

SFO broadly evaluates the economic benefits of the incentive program through a business case before the program begins. Using examples of similar programs, they demonstrate the value of the investment to airport revenue and to the local community. Once the program begins, SFO does not conduct any formal analyses. The incentive policy is open to all carriers which qualify, and the first airline to launch flights to a specific destination receives the incentive.

Massport staff described that since its incentive program was established in 2008, Massport has provided incentives for 15 flights. Table 7 lists the incentives awarded by Massport since the program was initiated based on data provided by Massport. The table shows the year the airline, destination served, year the incentive began and dollar value of the incentive through 2019. In all cases the incentive period was two years, though in two cases (Bogota and San Salvador) the new service was discontinued prior to the end of the incentive period.

Table 7. Massport Incentives Awarded, 2008-2019 (data current as of February 2020)

Airline	Destination	Year	Total Incentive
JAL	Tokyo	2012	$706,985
COPA	Panama City	2013	$652,962
Hainan	Beijing	2014	$1,027,258
Turkish Airlines	Istanbul	2014	$1,427,880
Emirates	Dubai	2014	$1,924,488
Hainan	Shanghai	2015	$704,577
Cathay Pacific	Hong Kong	2015	$1,022,642
El Al	Tel Aviv	2015	$1,560,595
AeroMexico	Mexico City	2015	$541,862
Qatar	Doha	2016	$1,482,679
Avianca	Bogota	2017	$365,092
LATAM	San Paolo	2018	$809,817
Avianca	San Salvador	2019	$200,000
Korean Air	Seoul	2019	$614,328
Royal Air Maroc	Casablanca	2019	$137,276

Of these flights, all but two were offered throughout the incentive period, and one was discontinued shortly after the incentive period. To gauge the impact of each new flight, the agency performs economic impact analyses to calculate the regional economic benefits of the flight.

Documentation of Incentive Programs

All of the airports interviewed described that information on their incentives program (or lack of a program) is public information and provided documentation on program details. However, the airports interviewed differ in the manner used to communicate this information, as well as in the degree to which they make information readily available through their web site.

In some cases, information on an airport's incentives is clearly communicated and readily available. Figure 1 shows how DEN summarizes its incentive program on its web site. This graphic details the types of service eligible for incentives, the incentive amount, and period of the incentive program.

Figure 1. Denver Air Service Incentive Program[14]

DENVER INTERNATIONAL AIRPORT

AIR SERVICE INCENTIVE PROGRAM

DOMESTIC AIR SERVICE INCENTIVE		
Unserved Destination	$250K	Maximum offered as operational offset, marketing funds or combination
New Entrant	$1M	Maximum offered as operational offset, marketing funds or combination
Less than daily service is prorated		

INTERNATIONAL AIR SERVICE INCENTIVE			
North America, Central America & Caribbean	$2M	Maximum offered as operational offset, marketing funds or combination	
	5-7x weekly freq.: **$2M**	3-4x weekly freq.: **$1M**	2 or fewer weekly freq.: **$250K**
All other regions	$6M	Maximum offered as operational offset, marketing funds or combination	
	5-7x weekly freq.: **$6M**	3-4x weekly freq.: **$5M**	2 or fewer weekly freq.: **$2M**

Program is in effect for airlines announcing eligible service between Sept. 1, 2020 – Aug. 31, 2021; frequencies calculated annually. Full terms and conditions available upon request.

Likewise, PHL provides clear documentation on its CASRIP developed initiated in 2020. Figure 2 is reproduced from the program documentation. It shows what types of services may receive incentives, and details the fees and marketing support available in each case. The program document further details the funding for the incentives program and the program duration.

[14] *Air Service Incentive Program*. Denver International Airport (Fly Denver). Accessed June 18, 2021. https://www.flydenver.com/about/administration/air_service_incentives

Figure 2. Philadelphia Air Service Incentive Program[15]

TYPE OF SERVICE	TYPE OF ROUTE	DEFINITION	LEVEL 1 MARKETS	LEVEL 2 MARKETS	LEVEL 3 MARKETS
New and Expanded International Service Incentives	Unserved Routes	Any passenger air carrier establishing scheduled, year-round, daily nonstop service to targeted international destinations. The targeted destinations must not have been served from PHL by the carrier at any time on or after January 1, 2020. A secondary airport within an international destination city that is already served from PHL is eligible. The incentive for daily service will be reduced proportionately for service that is less than daily or seasonal.	Athens, Barcelona, Budapest, Dubrovnik, Edinburgh, Lisbon, Prague, Reykjavik, Shannon, or Venice. 50% of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during the first 4 months of service and access to the PHL outdoor advertising program for 6 months.	Any international destination except (1) Caribbean markets or (2) Level 1 Markets, or (3) Level 3 Markets. 100% of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during the first 12 months of service, cooperative marketing funds up to $1,000,000.00, and access to the PHL outdoor advertising program for up to 6 months.	Any international destination in Central America, South America, Africa, India Subcontinent, or East Asia. 100% of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during the first 24 months of service, cooperative marketing funds up to $1,500,000.00, and access to the PHL outdoor advertising program for up to 6 months.
	New Entrant Carrier	Any passenger air carrier that did not serve PHL on April 1, 2020, or any date thereafter, establishing scheduled, year-round, daily nonstop international service. The incentive for daily service will be reduced proportionately for service that is less than daily or seasonal.	Carriers that served PHL within the 24 months preceding the initiation of service, but did not serve PHL on or after April 1, 2020: (a) If the air carrier operates not less than 10 flights prior to October 25, 2020, 100% waiver of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during first 6 months in operation. (b) If the air carrier operates less than 10 flights prior to October 25, 2020, or commences operations after October 25, 2020, 50% waiver of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during the first 6 months in operation. Air carriers under this category are also eligible for access to PHL outdoor advertising program for up to 6 months, regardless of start date.	New entrant air carriers that have not served PHL during the 24 months preceding the initiation of service. 100% of landing fees, international common use enplaning and deplaning area fees, and FIS area fees incurred during the first 12 months of service, cooperative marketing funds up to $1,000,000.00, and access to the PHL outdoor advertising program for up to 6 months.	
New Domestic Service Incentives	Unserved Routes	Any passenger air carrier establishing scheduled, year-round, daily nonstop service to a targeted domestic destination. The destination must not be served from PHL at the time service is initiated, or have been served at any time on or after January 1, 2020. A secondary airport within a domestic destination city that is already served from PHL is eligible. The incentive for daily service will be reduced proportionately for service that is less than daily or seasonal.	Washington, Oregon, California, Alaska, Hawaii. 100% of waiver of landing fees for the first 12 months of service, and access to the PHL outdoor advertising program for up to 3 months.		
	New Entrant Carrier	Any passenger air carrier that did not serve PHL on April 1, 2020, or any date thereafter, establishing scheduled, year-round, daily nonstop service to any domestic destination. The incentive for daily service will be reduced proportionately for service that is less than daily or seasonal.	100% of waiver of landing fees for the first 12 months of service, cooperative marketing funds up to $50,000 per route (up to $250,000 total), and access to the PHL outdoor advertising program for up to 3 months.		

In the case of SEA information on the incentives program is available on the Port of Seattle's web site through minutes of the board meeting in which the program was approved. Figure 3 shows the program summary detailed in the Port of Seattle's meeting minutes. For SFO the availability of incentives is noted in the airport's rates and charges document described previously, but details on the program are not readily available on the agency's web site.

[15] *Philadelphia International Airport COVID-19 Air Service Recovery and Incentive Program (CASRIP)*. Philadelphia International Airport. Accessed June 18, 2019. https://www.phl.org/drupalbin/media/PHL%20CASRIP%202020.pdf.

Figure 3. Seattle Air Service Incentive Program[16]

NEW INTERNATIONAL PASSENGER SERVICE INCENTIVES

Program Category	Description	Int'l Arrivals Facility Fee Waiver	Landing Fee Waiver	Joint Promotional Funds
Category A Unserved Long-haul International Markets	International nonstop air service of at least 4,000 miles to an unserved city	100% for two years	100% for two years	$500,000 over two years[1]
Category B Unserved Medium-haul International Markets	International nonstop air service of between 2,000 and 4,000 miles to an unserved city	100% for one year	100% for one year	$300,000 over two years[1]
Category C Competitive Medium- and Long-haul International Markets	International nonstop air service of at least 2,000 miles to a destination with existing service on a different carrier	n/a	n/a	$200,000 over one year[1]

[1] Joint Promotional Funds for Categories A and B must be used within two years (not to exceed three calendar years). Funds for Category C must be used within one year (not to exceed two calendar years)

International Passenger Service Incentive Eligibility:

To be eligible as a new international passenger service for Categories A, B, or C, the route must be:

- A nonstop service to an eligible market;
- A minimum of two scheduled round trips each week;
- Year-round scheduled service sold to the public;
- Not previously served by the same carrier or a subcontract partner carrier within 36 months;
- Not considered a replacement service of another service previously served by a profit-sharing Joint Venture agreement carrier on the same city pair

NEW DOMESTIC AND SHORT-HAUL INTERNATIONAL PASSENGER SERVICE INCENTIVES

Program Category	Description	Landing Fee Waiver[1]	Common-use Gate and Ticket Counter Fee Waivers[1,2]	Joint Promotional Funds[1]
Category D Small Community Air Service	New air service to unserved destinations in Washington, Oregon, or Idaho	100% for two years	100% for two years	$25,000 over one year[4]
Category E Unserved Domestic & Short-haul International Markets	Unserved city in the U.S. -or- Unserved city <2,000 miles[3]	n/a	n/a	$25,000 over one year[4]

[1] The second year of eligibility for domestic air service incentives is contingent upon the air carrier meeting a minimum of 75% of their projected operations in the first year of the program
[2] Fee waivers for gate and ticket counters applicable only for common-use facilities
[3] Includes short-haul flights to Canada and Mexico. Excludes destinations eligible for incentives under Categories B or D
[4] Joint Promotional Funds for Categories D and E must be used within one year (not to exceed two calendar years)

Domestic Passenger Service Incentive Eligibility:

To be eligible as a new domestic air service for Categories D or E, the route must be:

- A nonstop service to an eligible market;
- A minimum of five scheduled round trips each week via any aircraft type;
- Year-round scheduled service sold to the public;
- Not previously served by the same carrier or a subcontract partner carrier within 18 months;
- Not considered a replacement service of another service previously served by profit-sharing Joint Venture agreement carrier on the same city pair.

Massport's incentives program is noted in the agency's financial reports, in various Massport presentations, and in various agency press releases (e.g., when announcing new service and its positive impacts). The agency does not provide documentation similar to that illustrated above, though at the same time the program structure is less complex than the above examples and has not changed significantly since the program was first established in 2008.

[16] *Seattle-Tacoma International Airport New Air Service Incentive Program (Proposed).* Port of Seattle, June 2016. Accessed June 18, 2021. https://meetings.portseattle.org/portmeetings/attachments/2016/2016_06_14_RM_6b_attach_reduced.pdf.

Conclusions

The review performed for this effort illustrates approaches for handling airport revenue and offering marketing incentives for U.S. airports. Regarding the treatment of airport revenue, FAA regulations, in turn guided by Federal legislation, provide the structure for how U.S. airports must operate if they receive Federal funds. Airports can supplement their aeronautical revenue (e.g., from landing fees) with non-aeronautical revenue (e.g., from parking) to reduce the cost of air operations. Generally, airports are restricted from using airport revenue for non-airport purposes unless the airport has a "grandfathered in" revenue diversion agreement as Massport does. An airports' choice of rate model (compensatory, residual or hybrid) has a major impact on how it structures its rates and charges.

Six airports were interviewed as part of the project. The two interviewed that use a residual rate model do offset their aeronautical revenue with non-aeronautical revenue. The other airports, including Massport, typically do not, though with some exceptions and qualifications.

Massport and two of the airports interviewed described that they divert a portion of their revenue for non-airport purposes. In all of these cases the diversion is made based on a pre-existing revenue diversion agreement.

All of the airports interviewed face significant challenges in rebuilding air service following the COVID-19 pandemic. Most have deferred fees or made adjustments to reduce impacts to air carriers and vendors.

The review also addressed the use of air service incentives. Many airports offer such incentives for new service, waiving fees and providing additional marketing support in accordance with FAA guidance on incentive programs. The literature details the incentives offered by airports across the U.S., and describes that the use of incentives programs has grown over time. Massport offers incentives for new international service to selected regions. Of the airports interviewed for the project, four offer incentives and two do not. Generally, airports offer incentives only to the extent they have excess capacity. Large hubs and airports with residual rate models may offer incentives, but must carefully consider the impact of any incentives that are offered on existing air carriers who indirectly pay to incentivize new service.

The following are notable best practices regarding use of air service incentives based on the literature review and interviews:

- Clearly communicating the program structure, size and duration. DEN and PHL provide excellent examples of effective communication of their programs.
- Providing additional value-added marketing services. SFO's approach to providing additional marketing and publicity of new service is notable in this regard.
- Analyzing both the business impact and economic impact of incentives. This analysis is particularly important when first establishing an incentives program, given a program must be available to all air carriers once established. Also, in the case of an economic impact analysis, it may be most meaningful to use such an analysis to inform decisions of whether air service should be incentivized to begin with rather than whether a given incentive should be offered.

Revisiting incentives as a tool for restoring air service. Several of the airports interviewed are reviewing their approach to offering incentives and may make changes to help rebuild service following the pandemic. PHL's approach is notable as an example of a revised incentive program that uses additional funds to help rebuild air service.

Appendices

Glossary of Terms[17]

Aviation Fees: Fees collected by Massport for all aviation-related activity, namely at Logan International Airport but also including Worcester Regional Airport and Hanscom Field.[18]

Capital Contribution: Financing from both state and federal sources issued in order to develop capital projects. Funding of this kind has originated from the MA Department of Transportation, the Federal Aviation Administration, and the Maritime Administration unit of the US Department of Transportation (MARAD) FASTLANE Grant.[19]

Capitalization: An accounting method in which a cost is included in the value of an asset and expensed over the useful life of that asset, rather than being expensed in the period the cost was originally incurred.

Debt Service: The cash that is required to cover the repayment of interest and principal on a debt for a particular period.

Maritime Revenue: Revenue generated by Massport for all maritime-related activity, namely Boston Autoport, Constitution Marina, Boston Harbor Shipyard and Marina, Boston Fish Pier, Massport Maritime Terminal (MMT), OPG Leasehold, 88 Black Falcon, and Boston Harbor Lobstermen's Collaborative.[20]

Net Operating Income (NOI): A calculation used to analyze the profitability of income-generating real estate investments. NOI equals all revenue from the property, minus all reasonably necessary operating expenses. NOI is a before-tax figure, appearing on a property's income and cash flow statement, that excludes principal and interest payments on loans, capital expenditures, depreciation, and amortization.

Net Position: The value of one's investment position, calculated as the position's market value minus the initial cost of entering that position. For example, if it costs $1,000 to buy something and the market value is $1,100, the net position would be $100.

Net Revenue: An organization's sales minus discounts and returns. Also known as "real top line".

Non-Operating Revenue: the portion of an organization's income that is derived from activities not related to its core business operations. It can include items such as dividend income, profits, or losses from investments, as well as gains or losses incurred by foreign exchange and asset write-downs. Non-operating income is also referred to as incidental or peripheral income.

Operating Expenses: An expense a business incurs through its normal business operations. Operating expenses include rent, equipment, inventory costs, marketing, payroll, insurance, step costs, and funds allocated for research and development.

Operating Revenue: The revenue that a company generates from its primary business activities.

Other Post-Employment Benefits (OPEB): The benefits, other than pension distributions, that employees may begin to receive from their employer once they retire. Other post-employment benefits can include life insurance, health insurance, and deferred compensation.

Payment in Lieu of Taxes (PILOT): Payments made as a substitute for normal taxation, particularly made from nonprofit organizations with significant economic impact not subject to normal rules of taxation by the Commonwealth of Massachusetts.[21]

Real Estate Revenue: Revenue generated by Massport for all its real estate holdings, separate from its revenue generated from Maritime and Aviation activities.[22]

[17] Definitions sourced from Investopedia, unless otherwise noted.
[18] Definition developed by Project Team.
[19] Comprehensive Annual Financial Report. Massachusetts Port Authority, 2020. Accessed June 18, 2021. http://www.massport.com/media/iwvjsnjz/fy2020_cafr.pdf.
[20] Massport Maritime Industrial Property. Massachusetts Port Authority. Accessed June 18, 2021. https://www.massport.com/massport/business/real-estate/maritime-industrial-properties/.
[21] Definition developed by Project Team.
[22] Definition developed by Project Team.

Interview Guide

Practices Related to Aviation Revenue and Marketing Incentives

Overview

The Massachusetts Port Authority (Massport) Community Advisory Committee (CAC) is a Massachusetts state agency charged with review of Massport operations and finances, including operations of Logan Airport. The CAC is currently reviewing Massport's practices related to aviation revenue and marketing incentives. As part of this review the CAC seeks to establish current practices of Massport's peers in these areas. The University of Massachusetts (UMass) Collins Center and its subcontractor Spy Pond Partners (SPP) are assisting in this review.

Your organization has been identified as a peer by Massport and/or CAC, and we are thus interested in obtaining information about your practices related to aviation revenue and marketing incentives. The following pages describe a set of topics we would like to address with you through a one-hour telephone interview. Your responses will be shared with Massport and the CAC, but if preferred can be anonymized prior to inclusion in any reports or presentations. If you participate, we will share the final report and comparative analysis with your organization. We appreciate your participation in this effort.

For more information, please contact:

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Responsibilities:	*Commercial development for all properties, concessions, parking, advertising, real estate development and air service development. Global marketing and branding strategy.*	*All finance and accounting deals at the airport.*	*Government and community affairs, international affairs, speakers bureau, educational program, web content & public relations.*

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

ATL publishes many documents with their financial and operating data under the Investor Relations section of their website: https://www.atl.com/business-information/investor-relations/. The Airport Use and Lease Agreement contains a section documenting the Calculation of Rates and Charges including landing fees and terminal rents. ATL also publishes a brief summary document detailing the annual airline rates and charges.

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

On the non-aeronautical side, only the parking fees are publicly available on the website, and the ground transportation rate sheet is available at request. Other rates pertaining to advertising and concessions are not published because these are unique agreements between individual tenants.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

As a result of COVID-19, ATL has reduced the rates for parking, and the city of Atlanta passed legislation to offer support to the concessions program at ATL and aid the industry's full recovery. Through this legislation, ATL decreases the rent obligation, waives several concessions-based fees, and provides a 3-year extension to existing agreements. Documentation of the legislation has been shared with the research team.

Additionally, ATL's rent relief program has been continued. Extra information on the rent relief program has also been shared with the research team.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

None of the non-aeronautical revenue is put towards the reduction of landing fees. However, ATL returns a concession credit to the airlines as per their lease agreement. The concession credit applies to the terminal rent and includes a percentage and a per-passenger fee.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

No.

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

ATL spends $5-10 million a year on noise mitigation and abatement. FAA typically funds 80% of these activities, with the remainder covered by the passenger facility charge (PFC).

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

ATL had an air service incentive program (ASIP) which began in July 2014 and ran for five years and $2 million. More information about the airline qualifications, incentives, and tiers of benefits are described in a white paper. Prior to COVID-19, ATL planned to let the incentive program expire due to gate capacity issues. Since ATL is a hub airport, their perspective on incentive programs differs from that of non-hub airports.

Due to the impacts of COVID-19, ATL is now reviewing their options for offering relief funds to restore business. The current plan focuses on maintaining relationships within the international terminal. Possible incentives include baggage charge fees, ticketing fees, landing fees, and other facility discounts.

2. What are your airport's goals for providing marketing incentives?

For the ASIP deployed in 2014, a primary goal was attracting international flights to locations in China and India and across Africa. The present incentive goals are to restore business.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

The Commercial Development team worked with Finance in order to understand the implications of fee waivers through a formal analysis. However, the incentives' direct impact on the service generated remains unknown. Discussions with several new airlines were already underway when the incentive program was established, and while these airlines benefitted from the incentives, the incentives were not the primary motivation for providing service at ATL.

4. How successful has your incentive program been in attracting new service?

The program successfully awarded incentives to at least four airlines (Jet Blue, Turkish, Qatar and Delta), but it is unclear if the incentives attracted the new service.

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

Delta added several new routes which did not qualify for the incentive program. Other airlines increased their frequency on existing routes. No international routes were added outside of the program.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

Disregarding the impacts of COVID-19, ATL does not know of any cases where service was suspended following the end of their incentive program.

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

See above responses. The pandemic has dictated changes to the incentive program.

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

Details of the previous incentive program are published online: https://www.atl.com/wp-content/uploads/2017/08/ASIPSummary_Revised04142016.pdf.

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?

ATL expects to recover 80-85% of pre-COVID traffic by 2024. However, the progress and impact of vaccines on future travel is unpredictable. The budget for FY2021 (June-July) has been reduced, and ATL anticipates major financial impacts remaining in FY2022, even if vaccines are widespread. The CARES Act does provide some relief for the airport, and they are managing their expenses to meet the needs of the airport and the community.

ATL is strategically re-evaluating their concessions plan, for they predict a pivot in passenger profiles for business and leisure travel. Parking is expected to recover fully.

2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.

The team would like to have a final copy of the CAC report. They would also like to understand more about the Massport CAC oversight committee, including details on when it was created and how it is structured.

3. Please describe any other notable practices or relevant factors you feel we should consider.

ATL is mitigating the travel impacts from COVID-19 through their Air Bridge program. This program seeks to open borders to travelers by providing verified rapid testing and additional safety measures. It has been trialed on their Delta flight to Rome. This article describes the process for quarantine-free

travel between Atlanta and European destinations: https://news.delta.com/deltas-first-covid-tested-flight-departs-atlanta-charting-path-global-recovery.

Interview Guide

Practices Related to Aviation Revenue and Marketing Incentives

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Contact Information

1. Name: George Karayiannakis
2. Position: Acting Deputy Chief Financial Officer
3. Organization: Denver International Airport
4. Overview of responsibilities: accounting world, rates and charges, operating capital budget, airline affairs and properties, air service development

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

The aeronautical rates and charges are publicly available on the Denver airport website in part 120 of their rules and regulations. Also included within this file are all rates and charges for concession operations. All charges are updated annually. See the link provided: https://www.flydenver.com/sites/default/files/rules/120_fees_charges.pdf.

For additional details regarding all other governing rules and regulations at DEN, see: https://www.flydenver.com/about/administration/rules_regulations.

Denver airport's financial model follows the hybrid approach, with a residual model for the airfield and a compensatory model for the facilities.

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

Documentation of the non-aeronautical fees are included in part 120 which is linked above. Part 125 of the rules and regulations introduces a Customer Facility Charge for rental car transactions. DEN does not have separate information on advertising fees because advertising is treated as a concession and managed by Clear Channel Outdoor.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

DEN has not made any recent changes to the fee structure. The ride-sharing fees are under agreement at $2.86 per trip until October 2022. At that time, DEN will consider adjusting the ride-sharing fees.

To mitigate some of the impacts of the COVID-19 pandemic, the airport offered rate deferrals for airlines, allowing them to defer payment on April, May and June 2020 charges until December 31, 2020. All airlines paid on time. For 2021, DEN is deferring 25% of all airlines rates and charges and offering the airlines 5 years to pay it back with interest. The vast majority of carriers accepted this recent offer.

In their COVID-19 response for concessions operations, DEN relieved all tenants of their MAG (minimum annual guarantee) of $5 million. Concessions must now only pay a percentage of their sales as dictated in their contract with DEN. This plan began in April 2020 and continues for the foreseeable future.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

Since DEN follows a residual model for the airfield, none of their non-aeronautical revenue goes toward landing fees. The airport could only consider this option if their agreement with their carriers changes.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

Denver is grandfathered in to a revenue diversion agreement with the City of Denver. The city takes a portion of their aviation fuel tax ($0.02 per gallon).

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

DEN is undergoing active litigation with their neighbors in various counties over noise and cannot presently comment on their noise abatement activities or funding.

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

All of the details regarding DEN's marketing incentives are publicly available on their website: https://www.flydenver.com/about/administration/air_service_incentives. Both domestic and international incentives are regularly updated to stay relevant.

Carriers qualify for 2 years of incentive benefits (only 1 year if their international or domestic market is already being served) for all new, daily nonstop scheduled passenger service announced between September 1, 2020 and August 31, 2020. If the annual average air service is less than five times per week or if the air service is seasonal, the incentive benefits are prorated.

- *Unserved domestic destination: $250K incentive*
- *New entrant for domestic air service: $1M incentive*
- *North America, Central America & Caribbean international service: $2M maximum incentive, subject to prorating*
- *All other international regions: $6M maximum incentive, subject to prorating*

All qualifying carriers at the Denver airport may choose whether their incentive is spent on their operational expenses or through a marketing program.

2. What are your airport's goals for providing marketing incentives?

The goals are to increase the number of destinations served by DEN, which is one of the airport's key performance indicators, and to sustain this service over the long-term.

Since Denver is not a coastal city, many international carriers do not think to fly directly to the city, so the incentives encourage new nonstop international flights. Conversely, DEN is one of the top airports in the US for nonstop domestic flights. The domestic incentives support and maintain this position.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

DEN conducts a formal analysis of the incentive program on an annual basis. Their analyses are both forward- and backward-looking. The analysis determines how much money was spent on operations and marketing, and whether the funded service was retained. DEN correlates the amount of money spent on incentives in the previous year with their total number of destinations KPI.

Despite facing many challenges to air service in 2020, Denver will not be reducing their marketing incentives.

4. How successful has your incentive program been in attracting new service?

In 2019, DEN attracted 13 new domestic destinations and 1 international destination. This level of growth is typical for the airport and can be attributed to the success of the incentive program. Other

indicators of success include airlines adding flights in addition to those they received incentives for. This also occurred throughout the program's history.

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

Occasionally, carriers will provide support above and beyond the requirements for their incentives. However, most new service is eligible for the marketing incentives.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

While it is the exception to the rule that new service is suspended following the end of a marketing incentive, it has happened on occasion.

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

The most significant change to DEN's incentive program was to offer carriers the choice of how their incentive dollars may be split between the operational side and the marketing side. The total expense for DEN did not change with the adjustment, but the utility for the carriers increased. This has been beneficial to DEN's retention of service following the conclusion of an incentive.

Future changes are being contemplated. Shortly, DEN will announce some additional changes for 2021 following further discussions with the administrative team. These updates will be published to the DEN website and available for the public.

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

The entire marketing incentive program is available on the website, using the link provided in the first question.

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?

The impacts of the COVID-19 pandemic have been discussed in previous questions. The industry consensus is that it will take 2-3 years for the aviation industry to return to 2019 levels.

2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.

Denver would like to learn more about the practices of their peers. In particular, they are interested in creative methods to support the carriers which fall within FAA regulations.

3. Please describe any other notable practices or relevant factors you feel we should consider.

It should be highlighted that DEN does an exceptional job at making their rules and regulations and the details of their marketing incentive program available to the public through their website.

Interview Guide

Practices Related to Aviation Revenue and Marketing Incentives

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Contact Information

1. Name: *Becca Doten*
2. Position: *Deputy Executive Director of Public & Government Affairs*
3. Organization: *Los Angeles World Airports*
4. Overview of responsibilities: *community relations, government affairs, public/media relations, air service development and airport marketing*

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

LAX's aeronautical rates and charges are outlined in their Air Carrier Operating Permit and Tariff/Rate Agreement documents. The fees for FY2020-21 can be found at the following link: https://www.lawa.org/-/media/lawa-web/group-and--division/files/air-carrier-operating-permit-acop-lax/landing-fees-at-lax.ashx.

LAX uses the compensatory methodology setting aviation rates.

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

Applications for ground transportation and rental car permits are provided online along with documents supporting the processes. All concessions sales are documented here: https://www.lawa.org/lawa-tenants-411/lax-concessions-sales.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

LAX has not made any recent changes to the fee structure, nor are they contemplating future changes.

In response to the financial impact of the COVID-19 pandemic, LAX deferred charging the new landing fee rates for the period July 2020 – December 2020. FY2020 landing fee rates and other charges were collected instead. The new landing fees go into effect for January -2021 through June 2021.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

Non-aeronautical revenue is not used to reduce landing fees.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

LAX does not have a revenue diversion agreement.

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

Noise mitigation activities are funded through PFCs (passenger facility charges) and department funds.

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

LAX does not currently offer a traditional marketing incentive program.

2. What are your airport's goals for providing marketing incentives?

LAX is in the midst of reviewing and considering options for marketing incentives.

Massport CAC Peer Review – LAX

Prior to the COVID-19 pandemic, LAX did not need to rely on incentives to attract airlines and it was experiencing capacity constraints. In 2019, the airport was the busiest in the world in 2019, and they were adding many new routes and airlines each year.

LAX is now in the midst of reviewing and considering options for marketing incentives.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

LAX is currently conducting a review of the benefits of offering an incentive program to carriers. The results of the analysis are not yet available.

4. How successful has your incentive program been in attracting new service?

N/A

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

LAX has been very successful in attracting service without any marketing incentives.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

N/A

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

N/A

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

N/A

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?
2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.
3. Please describe any other notable practices or relevant factors you feel we should consider.

In January 2020, LAX announced an incentive program encouraging airlines to fly more quietly. (https://www.nbclosangeles.com/news/local/lax-announces-incentive-program-for-commercial-airlines-to-fly-quieter/2295937/)

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Contact Information

1. Name: *Adam Mitchell*
2. Position: *Deputy Chief Revenue Officer, PHL*
3. Organization: *Philadelphia International Airport*
4. Overview of responsibilities: *Team lead for air service development and marketing strategy, which includes new international routes and cargo service. Works alongside the Chief Revenue Officer and Chief Financial Officer to manage various revenue programs, including: concessions, ground transportation, wireless internet, guest experiences, advertising, terminal leasing, airline agreements, business development, and property management.*

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

PHL publishes rates and chargers online, which includes landing fees and other flight-related fees. Some of the facility fees are published as well, specifically those related to the master use and lease agreements for signatory airlines.

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

This information is not published due to the nature of the arrangements. For instance, advertising, concessions, and food/beverage services are supplied through RFPs. According to Pennsylvania law, individuals may make a "right to know" request to receive information about specific agreements.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

Fees are re-evaluated whenever an agreement approaches its expiration date. In 2019, PHL made adjustments to the fee structure for ground transportation for this reason. The adjustment varies as much as the agreements and programs.

PHL has received requests from several business partners to change the fee structure in light of COVID-19. The airport reviews and considers all such requests, but have yet to make any changes this year.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

PHL has a residual agreement which means that signatory airlines agree to fund a portion of the airport operating and capital program expenses through the regime of rates and charges. These rates are discussed and approved by the signatory airlines through PHL's Majority-in-Interest (MII) process. This process is used to select specific projects for promotion. Non-aeronautical revenue may be used to offset the range of different rates and charges, not only landing fees.

Like other U.S. airports, PHL operates on a break-even basis, so they do not seek to maximize profits. Non-aeronautical revenue is used to increase the viability of commercial carrier operations.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

No.

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

A portion of noise mitigation is funded from the capital program and FAA grants. The Capital Development Group oversees this specific area; for more details, contact this group.

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

Historically, PHL's incentives focused on increasing the number of international destinations PHL served through nonstop routes. However, the focused has changed due to the impact of COVID-19. The global pandemic and resulting travel bans have caused a significant decline in air travel, and PHL does not anticipate a full market recovery for 2-3 years. The disruption to travel is particularly severe for international destinations, and travel bans are still in effect for most countries.

Recognizing the change in market conditions, PHL updated its incentives program in July to focus on restoring service. PHL also placed greater emphasis on cargo service. The new incentive program is outlined in the following document which is available online from PHL's website: https://www.phl.org/drupalbin/media/PHL%20CASRIP-19%20Air%20Service%20Recovery%20and%20Incentive%20Program%208-20.pdf

2. What are your airport's goals for providing marketing incentives?

Before the COVID-19 pandemic began, the incentives focused on establishing new nonstop routes to key business and tourism markets. Now, PHL's goals are restoring passenger air service to the levels achieved in 2019 and increasing freight service. PHL views the incentives as a means to encourage carriers to offer service by reducing the carriers' risks.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

For each carriers' formal application, PHL performs two analyses: a business case analysis and an economic impact analysis. The business case analysis focuses on the airports' direct costs and benefits resulting from the service and proposed incentives. The economic impact analysis studies the broader economic benefits of the additional air service to the Philadelphia community. The business case is not publicly available as it can contain sensitive information.

PHL continues to perform these analyses for the new incentive program; however, at the time, PHL places more emphasis on determining whether the proposed service is operationally viable.

4. How successful has your incentive program been in attracting new service?

PHL's incentive programs have been successful. In recent years, the previous incentive program attracted seven new international routes. Since the new program went into effect, several carriers have applied for incentives, and PHL is undergoing discussions for potential agreements.

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

One method for determining success in this area is to identify cases in which a carrier expanded capacity on a route beyond what they committed to do for the incentive. This includes adding flights or up-gauging planes to accommodate more passengers. PHL noted several instances where this occurred under the previous incentive program.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

In the years leading up to the pandemic, there was only one case in which service was suspended following the completion of the incentive period. This was a result of multiple factors.

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

See above response regarding the recent changes to the program. PHL periodically reviews and adjusts the incentive program - further changes are being considered as well.

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

The marketing incentives program is fully described in the CASRIP documentation on the website.

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?

See above responses. The pandemic has resulted in significant changes to PHL's use of marketing incentives.

2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.

It would be useful to obtain the results of the study to understand what other airports are doing and how they are adapting to the pandemic. It would also be valuable to understand Massport CAC's priorities with respect to aviation management.

3. Please describe any other notable practices or relevant factors you feel we should consider.

The new incentives program is paid for in part by a grant from the Commonwealth of Pennsylvania. PHL received the grant prior to the pandemic, and subsequently was authorized to repurpose the grant to help fund the updated incentives program.

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Contact Information

1. Name: *Kazue Ishiwata*
2. Position: *Senior Manager, Air Service Development*
3. Organization*: Port of Seattle, Seattle-Tacoma International Airport*
4. Overview of responsibilities: *Leads the development of marketing programs and incentives, the creation of strategies to deliver new services, and the promotion of existing service.*

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

SEA has a comprehensive lease agreement which covers all fees including those for public space or common-use space, landing fees, facility fees and others. This document is not online, but can be procured for the research team.

The rates and charges are documented on the SEA website: https://www.portseattle.org/sites/default/files/2020-12/SEA%20Airport%20Tariff%20Effective%20010121_0.pdf

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

This information is not readily available in an aggregate form online, because the fees for each of these areas is maintained by their respective departments. Furthermore, the rates often change.

SEA outsources advertising.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

Yes, SEA recently started charging TNCs for incoming trips as well as outgoing trips, which is something that most airports do not do.

Outside of the lease agreement, ADR (airport dining and retail) has made changes deferring rent and waiving MAG (minimum annual guarantee) requirements. The Port of Seattle Commission site describes the specifics of recent changes.

The airport is not considering any changes to rates and charges as a result of COVID-19.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

SEA uses a hybrid method for setting rates and charges.

Non-aeronautical revenue does not directly reduce landing fees. Instead, it is used to offset the landing fees waived for airlines receiving marketing incentives to ensure that other airlines do not subsidize the landing fees of their incentive-earning peers. A separate cost center is created for tracking the compensated landing fees.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

No.

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

Noise insulation spending comes from the airfield movement area cost center. At SEA, these costs are recovered through landing fees. Noise insulation expenses are treated as capital costs supporting avigation easements, property rights which allow airplanes to fly at low elevations through the

specified airspace. SEA attempts to maximize the use of FAA noise grants to reduce the airline rate base costs which are funded through cash or revenue bonds.

In addition to FAA grants and the airline rate base costs, SEA can occasionally tap into funds from the Port of Seattle. Port of Seattle has a general fund supported by county taxes. As a rule, these funds are not used for the airport, but they have been drawn from for some recent noise mitigation programs.

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

SEA's marketing incentives cover international and domestic flights. The current iteration of incentives has been running since 2012; however, SEA has had an incentive program since 2007.

The international and domestic marketing incentives follow a tiered system based on the distance of the new service. International cargo service receives incentives regardless of the distance.

- ***Category A**: Long-haul, intercontinental flights to new destinations (at least 4,000 miles) receive the highest level of benefit: $500,000 in marketing funds and two 2-year fee waivers: landing fees and federal inspection service (FIS) area fees – usually charged per passenger.*
- ***Category B**: Medium-haul flights to new destinations (2,000 to 4,000 miles; e.g. Seattle-Mexico City, Seattle-Reykjavik) receive both fee waivers for 1 year and $300,000 in marketing.*
- ***Category C**: Competitive medium- and long-haul service, when an airline begins new service to a location already served by another airline, receives no fee waivers and $200,000 in marketing funds for only one year.*
- ***Category D**: Small community air service to unserved destinations in Washington, Oregon or Idaho receives 2-year landing fee and gate & ticket-counter fee waivers as well as $25,000 in marketing funds over one year.*
- ***Category E**: New unserved domestic and short-haul international flights receive $25,000 in marketing for one year.*
- ***Category F**: New unserved international cargo markets receive a 2-year landing fee waiver and $100,000 in promotional funds over two years.*
- ***Category G**: New flights to competitive cargo markets, a market already server by another airline, receive only $25,000 in promotional funds.*

2. What are your airport's goals for providing marketing incentives?

All of the incentives are intended to increase tourism and advance the region as a business gateway. The international incentives are a tool used to attract airlines to SEA, especially when the airport competes with others in the area. International airlines face tremendous risk when opening a new service, so SEA mitigates part of the risk through their marketing incentives to increase the likelihood of success. The domestic incentives acknowledge and promote new service. The cargo incentives support SEA's larger goal of tripling their volume of air cargo to a target of 750,000 annual metric tons.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

Massport CAC Peer Review – SEA

When SEA proposed changes to the incentive model in 2016, they created a financial model, identifying the projected revenue without incentives and comparing it to the projected revenue with the incentive program. This model is presented to the Commission to prove that the long-term gain is greater than the marketing cost. The incentive program is also structured such that SEA does not lose money.

Separately, the Port of Seattle performs big-picture economic impact studies which demonstrate the impact of a single international service. This is done regardless of the incentive program, and it is not used to justify the provision of incentives. Occasionally, it is referenced by the incentive program. For example, an international long-haul flight is estimated to provide $1.5 million in annual rates and charges to the Port of Seattle and a further $75 million to the local economy.

4. How successful has your incentive program been in attracting new service?

The program has been very successful in attracting new service. Prior to the start of the incentive program in 2007, SEA had experienced 10 years with no new international destinations. Since the program began, the airport has received at least one new international destination each year.

An intangible measure of success, SEA's relationship with the airlines has improved as a result of the incentive program. The SEA works carefully with each airline to create a personalized marketing strategy and astutely spend the incentive marketing funds. The time and effort contributed to this effort helps SEA understand the airlines, and the airlines appreciate it in return.

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

There is a clear pattern of new service attracting competition, and many airlines have increased service frequency outside of the marketing incentives.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

The suspension of service is unusual, but it has happened a couple of times in the 14-year run of their incentive program. One airline dropped the service immediately after the incentive expired, and another airline lost the incentive when their frequency dropped below the minimum requirement.

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

In 2016, the frequency requirements were adjusted to a minimum service of twice per week, fee waivers were all increased to 100%, and marketing funds were increased to align more closely with the offerings of SEA's peer airports. SEA also added incentives for domestic/short-haul service and cargo service at this time.

There have not been any changes as a result of the pandemic. Several airlines never fully suspended their service as a result of the pandemic, so SEA will not offer incentives for other airlines to return as this would be unfair to those which remained. Instead, SEA provides small, non-financial marketing efforts through social media to encourage the return of airlines.

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

The marketing incentives program is not posted on the airport's website. However, it is a public document, and it is shared with the Commission. A copy of the marketing incentive overview document will be shared with the research team.

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?
2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.

There is nothing of particular interest; however, they would like to see the results of the interviews and research.

3. Please describe any other notable practices or relevant factors you feel we should consider.

Interview Guide

Practices Related to Aviation Revenue and Marketing Incentives

Overview

The Massachusetts Port Authority (Massport) Community Advisory Committee (CAC) is a Massachusetts state agency charged with review of Massport operations and finances, including operations of Logan Airport. The CAC is currently reviewing Massport's practices related to aviation revenue and marketing incentives. As part of this review the CAC seeks to establish current practices of Massport's peers in these areas. The University of Massachusetts (UMass) Collins Center and its subcontractor Spy Pond Partners (SPP) are assisting in this review.

Your organization has been identified as a peer by Massport and/or CAC, and we are thus interested in obtaining information about your practices related to aviation revenue and marketing incentives. The following pages describe a set of topics we would like to address with you through a one-hour telephone interview. Your responses will be shared with Massport and the CAC, but if preferred can be anonymized prior to inclusion in any reports or presentations. If you participate, we will share the final report and comparative analysis with your organization. We appreciate your participation in this effort.

For more information, please contact:

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Contact Information

Organization:	*San Francisco International Airport (SFO)*	
Name:	*Kevin Bumen*	*Melissa Andretta*
Position:	*Chief Commercial Officer*	*Aviation Development and International Marketing*
Responsibilities:	*Aviation management, including revenue development, property management, parking management, and the Grand Hyatt Hotel.*	*Primarily international marketing, with some domestic marketing recently added.*

Aviation Revenue

1. Do you have documentation available on your airport's aeronautical revenues, such as landing fees and facility fees?

SFO publishes their rates and charges on their website. This report is updated for each fiscal year, and it includes comprehensive documentation of rates for terminal fees, landing fees, cargo fees and other aeronautical charges. It is important to note that SFO is a fully residual airport, which fundamentally drives the model used for rates and fees.

https://www.flysfo.com/sites/default/files/assets/investor/FY20-21_Summary_of_Airport_Charges.pdf

2. Do you have documentation available on your airport's non-aeronautical revenues, such as fees for advertising, concessions, parking, non-terminal rentals, and ground transportation?

The non-aeronautical fees are included in the same publicly available document as the aeronautical fees and charges. It includes groundside area charges and utility charges.

3. Have you made any recent changes in either your fee structure or overall fees (e.g., changes in how ride sharing fees are structured?). Are you contemplating other changes?

The schedule of fees is updated annually. Currently, no major changes are being considered nor have any significant adjustments to airline fees been introduced as a result of COVID-19. However, SFO has suspended some concession fees and offered rent relief to their tenants. Since SFO is a fully residual airport, they do not have the same flexibility in adjusting airline fees compared to their compensatory peers.

4. Does your airport use any of its non-aeronautical revenue to reduce landing fees?

Non-aeronautical revenue is used to offset landing and terminal fees at SFO. They use a combined formula, which is described in the comprehensive financial document available on their website. This method is possible because SFO operates under a residual economic model.

5. Does your airport use any non-aeronautical revenue for non-airport purposes (e.g., as a result of a revenue diversion agreement)? If so please describe.

SFO makes an annual service payment to the City of San Francisco in exchange for services the City provides. The annual payment amounts to 15% of concessions revenue or at least $5 million. These payments are grandfathered into current FAA regulations, as the agreement existed before the present limitations on airport revenue diversion.

6. To the extent you fund any noise mitigation or abatement activities, what funding sources are used to pay for these?

Both federal and local money is used on noise mitigation and abatement activities.

Marketing Incentives

1. Please describe what marketing incentives your airport provides, including the types of service covered, incentives offered, and incentive program timelines.

Massport CAC Peer Review – SFO

The incentive program at SFO targets flights to any new international destination. Carriers which can provide at least one flight per week (three flights per week before COVID-19) are eligible for a two-year waiver of landing fees and $100,000 in marketing for the new flight.

For their marketing, SFO contracts with Hill + Knowlton to manage their PR abroad, focusing on attracting passengers for the inbound travel, and they work closely with San Francisco Travel Association to advertise new flights and provide assistance in the Bay Area. The airport offers advertising within the terminal through physical and digital ads in addition to web-based advertising on their website, their WiFi network, and their social media accounts. SFO also provides local PR support and assistance hosting events for the airlines.

2. What are your airport's goals for providing marketing incentives?

The market incentives are intended to expand international service. They had 5-6 years of tremendous growth in the international terminal before COVID-19, and the incentives helped bring onboard new destinations.

More recently, SFO is considering adjusting their incentives to provide marketing support to domestic service while they seek to recover from the effects of COVID-19.

3. Have you performed any formal analyses of the benefits or disbenefits of any incentives you provide? If so, what effects of changes in air service are incorporated in the analysis?

The economic benefits of the incentive program are broadly evaluated through a business case before the program begins. Using examples of similar programs, they demonstrate the value of the investment to airport revenue and to the local community.

Once the program begins, SFO does not conduct any formal analyses. The incentive policy is open to all carriers which qualify, and the first airline to launch flights to a specific destination receives the incentive.

4. How successful has your incentive program been in attracting new service?

The incentive program is successful in attracting new service. In 2021, there are already 6-7 new routes eligible for the incentives.

The incentives are much more important for smaller carriers than the larger carriers. SFO has experience with smaller carriers being swayed by their incentive offerings, in particular their local market intelligence. However, while the incentives are appreciated by larger carriers, they do not usually factor into their decisions to launch new flights.

5. How successful has your airport been in attracting other new service not eligible for marketing incentives?

Many airlines will expand their service offerings after beginning the incentive program, offering flights daily instead of three times a week. Additionally, the larger airlines will often add flights to new destinations after seeing the success of an incentive flight.

6. How frequently have you encountered cases where a new service was suspended following the end of a marketing incentive?

SFO has not experienced much suspension of service following a market incentive ending. Instead, airlines often expanded their service.

7. What changes have you made to your incentive program over time? Are you contemplating further changes in your program?

See above responses. SFO is considering offering marketing support for new domestic flights.

8. To what extent is information on your airport's marketing incentives program and the marketing incentives that have been provided publicly available?

A brochure on the marketing incentive program is available and has been shared with the research team.

Additional Questions

1. What impacts, if any, do you expect from the COVID-19 pandemic on your use of aviation revenue and/or approach to marketing incentives?
2. Is there additional information about your peer's practices regarding aviation revenue or marketing incentives that would be of benefit to your airport? If so please describe.

There is interest in understanding the changes other airports are making in response to COVID-19 and how each airport plans to encourage their recovery.

Several key variables drive what airports can do with their incentive programs, including the degree of terminal congestion, their cash-balance on-hand, and their form of agreement (compensatory, residual or hybrid). At the same time, airlines view marketing incentives differently based on their size, the length of the flight, the flight cost, and the risk assumed. Understanding how each of these factors impact the best choice of action for an airport would be of great benefit to SFO and the industry.

3. Please describe any other notable practices or relevant factors you feel we should consider.

SFO has an active MOU on sustainable aviation fuels. 9 out of 25 airlines (44 before COVID-19) operating at SFO have signed the agreement, committing to their purchase and use of sustainable fuels. The MOU is not enforceable, but it defines the marketplace and promotes the expansion of refinery and pipeline access for sustainable fuels. The Sustainability Team in Planning is responsible for this agreement. Erin Cooke, SFO's Sustainability Director, is the best person to contact for more information.