



AIR SERVICE INCENTIVES

PRESENTATION TO DENVER CITY COUNCIL, BIZ COMMITTEE
WEDNESDAY, NOV. 7, 2018

Presentation Outline

- Governance of Air Service Incentives for U.S. Airports
- DEN Air Service Incentive Program: Goals, Structure & Process
- Economic Impact of new Air Service
- Benchmarking & Competitive Landscape
- 2016 – 2019 DEN Air Service Incentives
- DEN Air Service Incentive Program: Overall Results

Governance of Air Service Incentives for U.S. airports

- Federal Aviation Administration (FAA) published the *Air Carrier Incentive Program Guidebook: A Reference for Airport Sponsors* in September 2010
 - Airport revenues may be used to cover:
 - Public and industry awareness of airport facilities and services
 - New air service and competition at the airport
 - A share of promotional expenses such as marketing, advertising and related activities designed to increase travel using the airport
 - Airport revenues may not be used to cover:
 - Destination or tourism marketing
 - Any activities, materials or expenses for general economic development not related to the airport
 - Marketing or promotional activities unrelated to airports or airport systems
- Incentives from other sources are not restricted by these guidelines (e.g., funds from state or local governments, chambers of commerce, convention and visitor bureaus, etc.)
- DEN's Air Service Incentives come from DEN's Capital Program and are not rate based back to airlines

DEN Air Service Incentive Program: Goals & Structure

Goal: To increase nonstop scheduled air service and passenger traffic at Denver International Airport, and to sustain this service over the long-term.

DOMESTIC AIR SERVICE INCENTIVE

	REFUND PER ENPLANEMENT	MARKETING FUNDS	MAXIMUM INCENTIVE
Unserviced Destination	\$5 \$250K maximum over 2 years	\$250K	\$500K
New Entrant	NONE	\$500K	\$500K

INTERNATIONAL AIR SERVICE INCENTIVE

	REFUND PER ENPLANEMENT	MARKETING FUNDS				MAXIMUM INCENTIVE
North & Central America - Canada, Caribbean, Central America, Mexico	\$20 \$1M maximum over 2 years	\$1M 5-7+ weekly frequencies	\$500K 3-4 weekly frequencies	\$100K 1-2 weekly frequencies	\$25K <1 weekly frequency	\$2M
South America, Europe, Asia, Middle East, Africa, Oceania	\$30 \$4M maximum over 2 years	\$1M 5-7+ weekly frequencies	\$2M 3-4 weekly frequencies	\$500K 1-2 weekly frequencies	\$250K <1 weekly frequency	\$6M

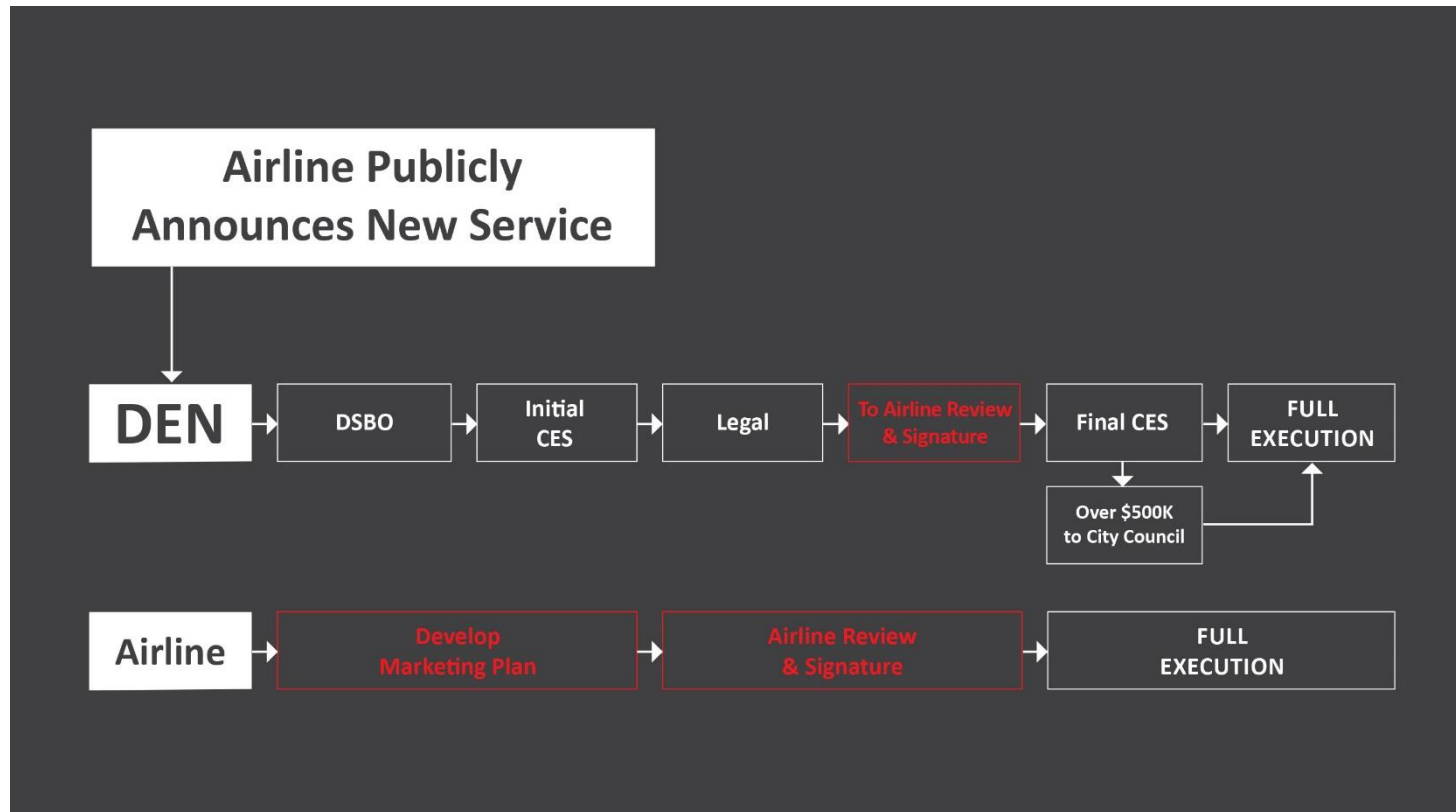
DEN partners across the State of Colorado may also commit incentive funds for a nonstop flight.



DEN Air Service Incentive Program: Goals & Structure

- Reviewed and updated annually
 - Current plan effective Sept. 1, 2018 – Aug. 31, 2019
- New domestic and international markets are eligible for incentives
 - Must be a new domestic route
 - Currently served domestic routes are not eligible, unless it is a new carrier to DEN (e.g., Sun Country to Minneapolis)
 - All international routes are eligible, both served and unserved
- Currently served routes are only eligible for an one-year incentive
 - Requirement of the FAA
- Carrier must maintain at least 50% of originally announced frequency for the contract term
 - E.g., if service is announced as daily, year-round (365 annual departures), carrier cannot drop below 183 annual flights
 - If service level drops below the 50% level, carrier must pay back marketing funds, and operational credits will be reversed
- Marketing of route must promote travel to/from/through Denver International Airport
- Operational credits offset fees to operate at DEN for that route only (e.g., landing fees, gate usage fees, etc.)

DEN Air Service Incentive Program: Contracting Process



DEN Air Service has identified the areas highlighted in red as pain points; we have recently implemented stricter turnaround timelines for these steps

Air Service is a significant investment by an airline –
aircraft are mobile assets and competition is global



The economic impact of new air service – especially international flights – is tremendous



Source: Denver International Airport analysis; Note: Icelandair/Reykjavik and United/Tokyo did not fall under DEN's current incentive plan structure which was implemented in September 2015

Incentive benchmarking helps us understand our competitive positioning



Source: Denver International Airport analysis

Incentives from medium-sized U.S. cities have grown in recent years, impacting air service negotiations and decisions

Hartford



Incentive: \$18.3M over 4 years
(Daily in summer, less than daily in winter)
Service start: Sept. 2016

Indianapolis

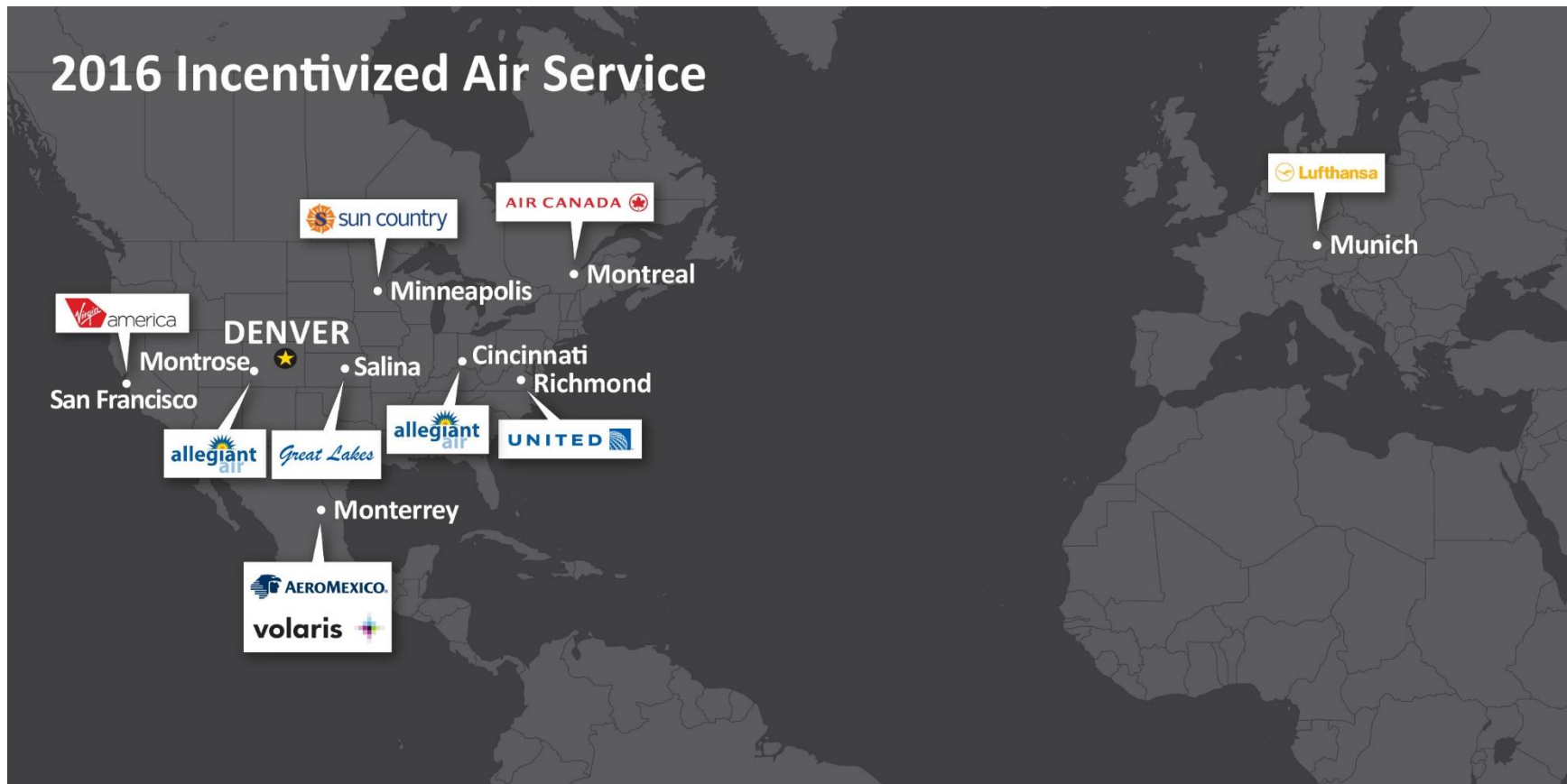


Incentive: \$5.5M over 2 years
(Daily service in summer, less than daily in winter)
Service start: May 2018



Incentive: \$1.5M over 1 year
(Daily service)
Service start: January 2014

In 2016, DEN incentivized new air service to Europe, Canada, Mexico and several domestic destinations

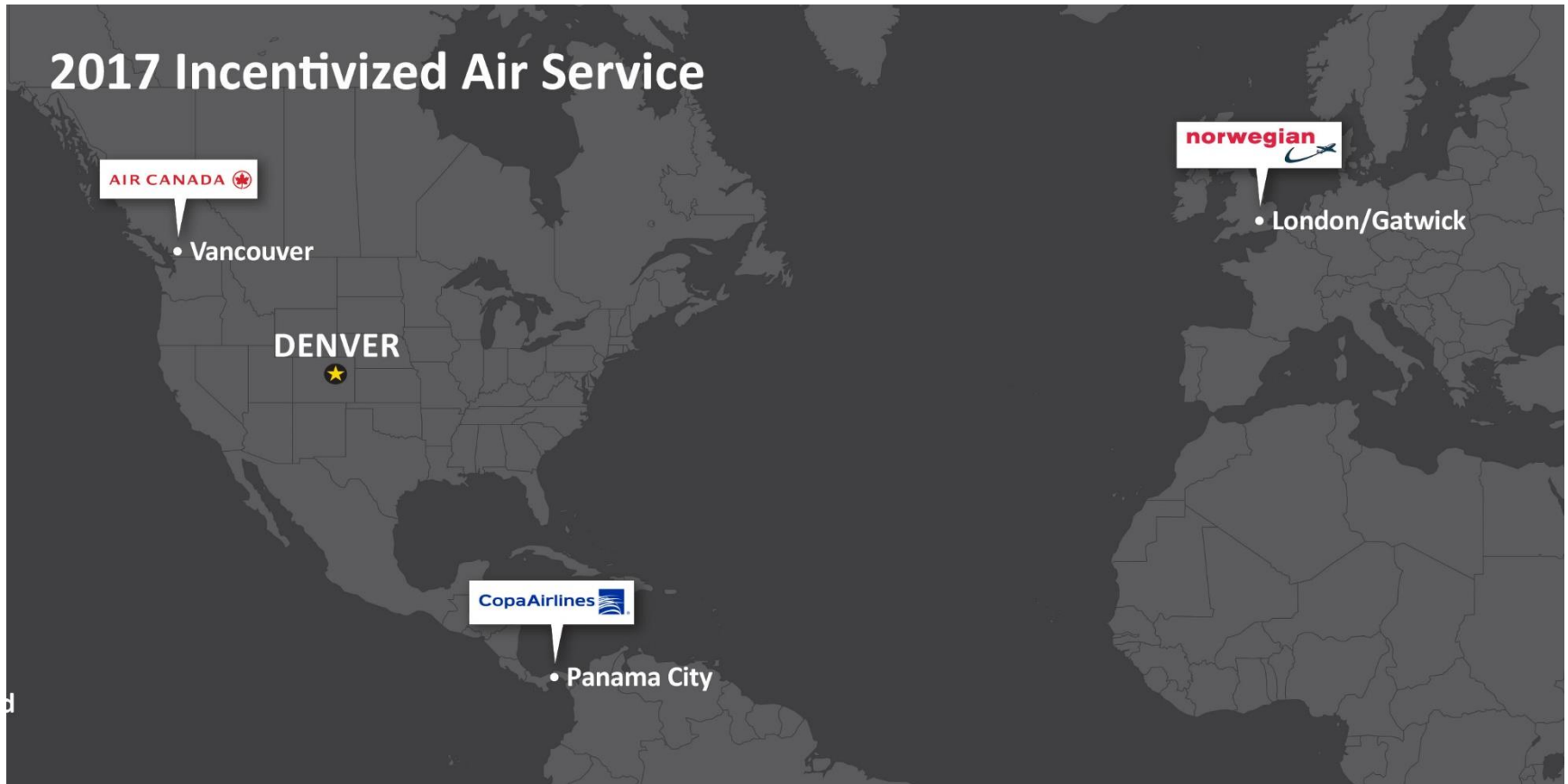


The new services in 2016 resulted in \$8.4 million in incentives: 66% in operational offsets and 33% in marketing

Airline	Destination	Incentive Type	Marketing Incentive	Operational Incentive
Aeromexico	Monterrey, Mexico	New international market	\$40K	\$40K
Air Canada	Montreal, Canada	New international market	\$500K	\$631K
Allegiant	Montrose, Colo. and Cincinnati, Ohio	New carrier	\$76K	N/A
Great Lakes	Salina, Kan. (SLN)	New domestic market	\$195K	\$70K
Lufthansa	Munich, Germany	New international market	\$1M	\$4,383K
Sun Country	Minneapolis, Minn.	New carrier	\$393K	N/A
United	Richmond, Va.	New domestic market	N/A	\$300K
Virgin America	San Francisco, Calif.	New carrier	\$500K	N/A
Volaris	Monterrey, Mexico	New international market	\$94K	\$138K
Total 2016 DEN Air Service Incentives			\$2,798K	\$5,562K

Note: Sun Country was eligible for \$500K in marketing; Marketing Incentive amounts for Aeromexico, Sun Country and Volaris prorated due to less than daily service levels; Marketing Incentive amounts for Air Canada, Aeromexico and Lufthansa are total encumbered amounts because the carriers have not yet submitted final invoices; Operational Incentive for Aeromexico is total forecasted amount because the carrier has not yet submitted for credits; amounts rounded to the nearest thousand

In 2017, DEN incentivized new service to Europe,
Canada and Panama



The new services in 2017 resulted in \$3.6M in incentives;
53% in marketing and 47% in operational offsets

Airline	Destination	Incentive Type	Marketing Incentive	Operational Incentive
Air Canada	Vancouver, Canada	New international market	\$1M	\$330K
Copa Airlines	Panama City, Panama	New international market	\$571K	\$1M
Norwegian Air UK	London/Gatwick, UK	New international market	\$821K	\$773K
Total 2017 DEN Air Service Incentives			\$2,392K	\$2,103K

Note: Marketing Incentive amounts for Air Canada, Copa and Norwegian Air UK are total encumbered amounts because the carriers have not yet submitted final invoices; Operational Incentive amount for Copa is forecasted because incentive period has not ended; Operational Incentive amounts for Air Canada and Norwegian forecasted because final accounting has not occurred

For the 2018/2019 period, DEN's incentives has resulted in new service to Europe, Canada, the Caribbean and new domestic destinations



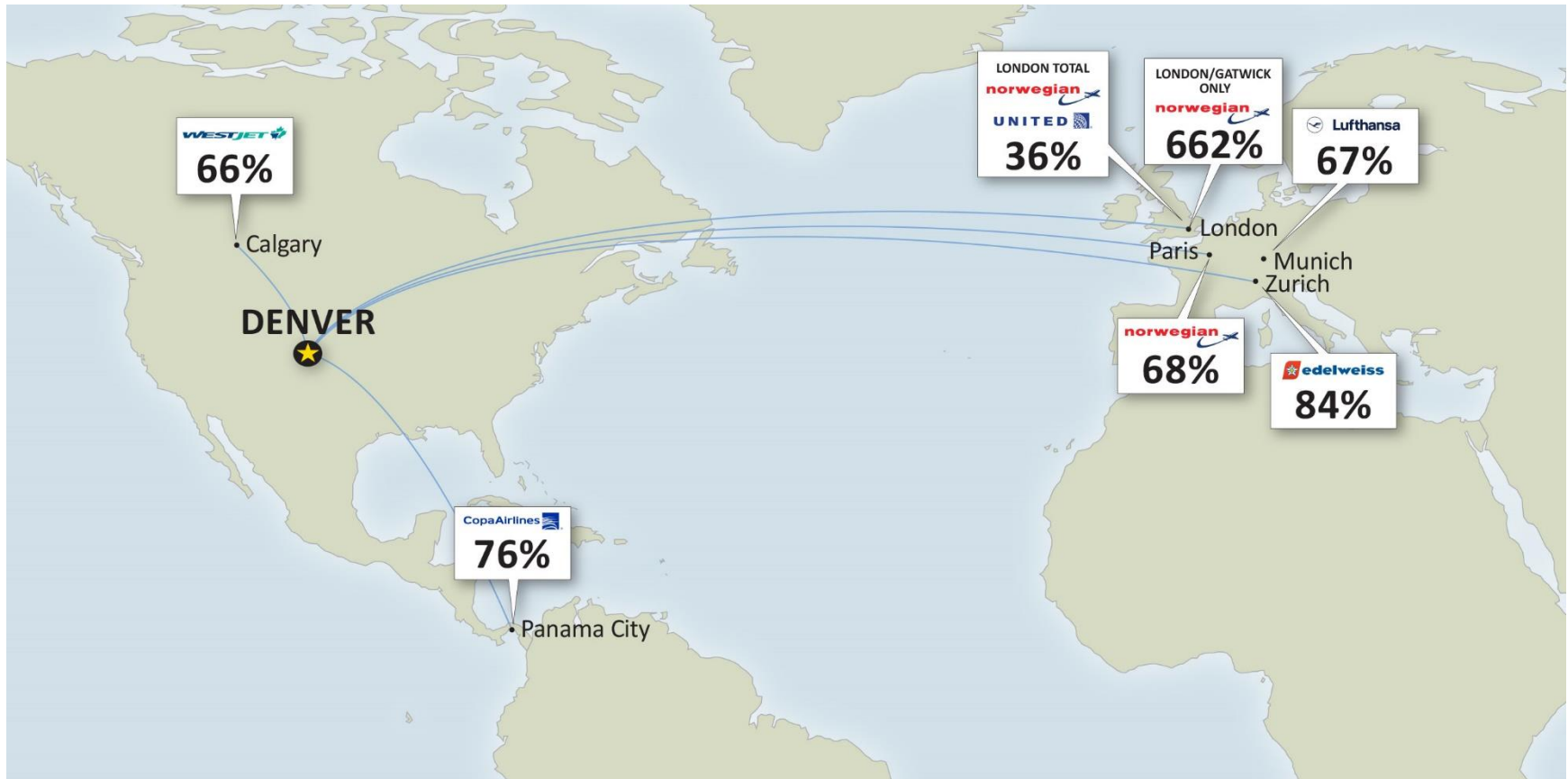
The new services in 2018/2019 will result in \$6.1M in incentives; 52% in operational and 48% in marketing

Airline	Destination	Incentive Type	Marketing Incentive	Operational Incentive
Allegiant	Asheville, N.C.	New domestic market	\$10K	\$78K
Cayman Airways	Grand Cayman, British West Indies	New international market	\$100K	\$256K
Edelweiss	Zurich, Switzerland	New international market	\$475K	\$227K
Norwegian Air Shuttle	Paris, France	New international market	\$570K	\$1,183K
United	Appleton, Wis.	New domestic market	N/A	\$164
United	London/Heathrow, UK	New international market	\$1,200K	\$1,128K
WestJet	Calgary, Canada	New international carrier	\$1M	\$664K
Total 2018/2019 DEN Air Service Incentives			\$3,355K	\$3,700K

Note: Marketing Incentive and Operational Incentive amounts for Allegiant, Cayman Airways, Edelweiss, United (London/Heathrow and Appleton) are estimated forecasted totals because contracts have not been fully executed; Marketing Incentive amounts for Norwegian and WestJet are total encumbered amounts because final invoices have not yet been submitted; Operational Incentives for Norwegian and WestJet are forecasted amounts because incentive period has not yet ended

DEN Air Service Incentive Program Results: Market Stimulation

Growth in Demand for Travel to/from Denver Select International Markets, 2016 – 2018



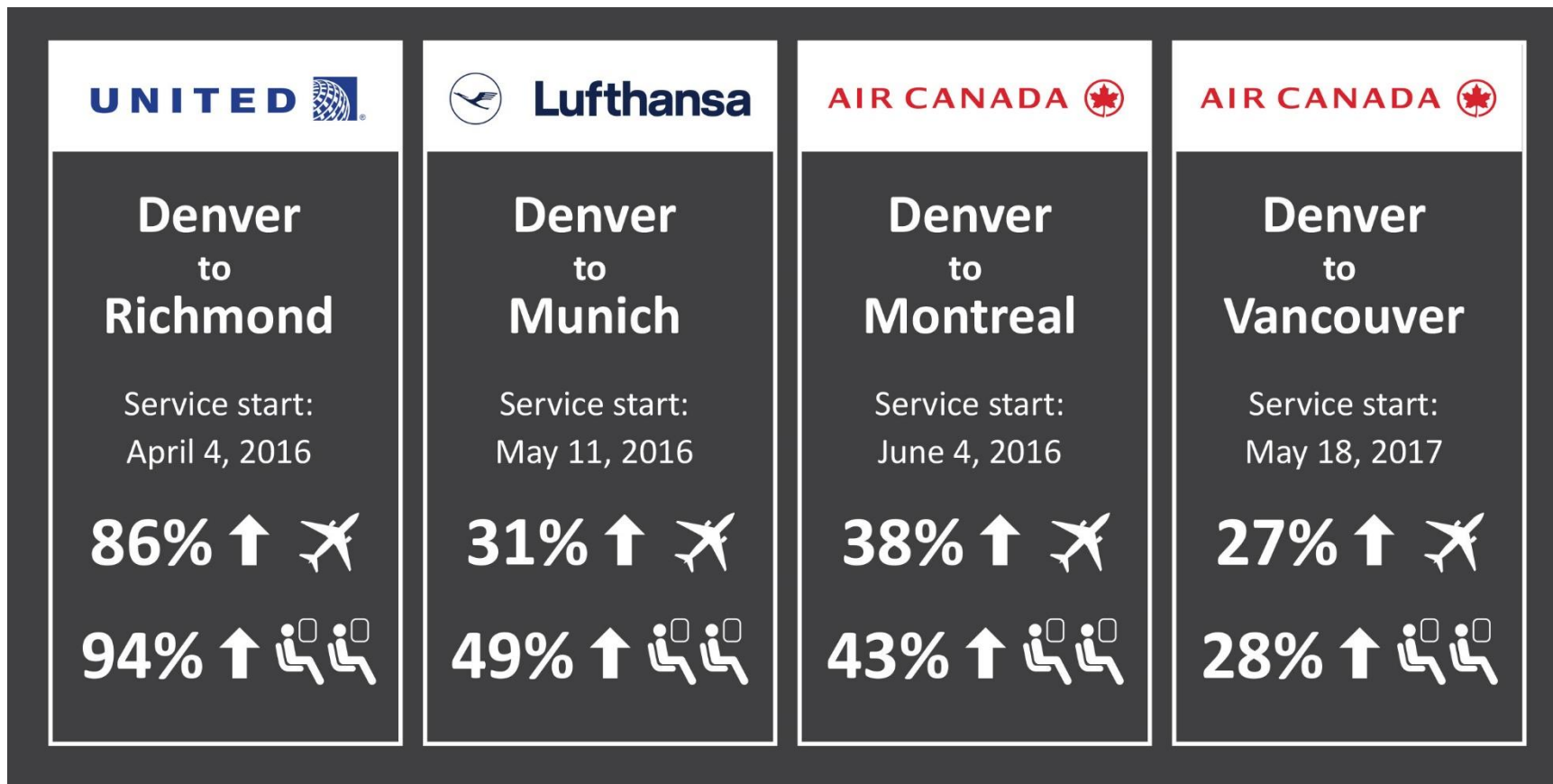
Source: IATA BSP via Diio Mi; stimulation compares demand for the period prior to service initiation with period of nonstop service

Note: Frontier also initiated nonstop Denver – Calgary service during the comparison period

DEN Air Service Incentive Program Results: Increased Flights & Capacity



Growth in Flights and Seats Select Domestic & International Markets, 2016 – 2018



Source: Innovata Schedules via Diio Mii; comparison period for each route is CY 2018 vs. first year of service

DEN Air Service Incentive Program: Overall Results

- 2016 – 2019 Incentives
 - Operational: \$11,365,000 (57%)
 - Marketing: \$8,545,000 (43%)
 - TOTAL: \$19.9M
 - To date, all incentivized routes have met the contract terms
- DEN outpacing U.S. international origination & destination (O&D) growth
 - Over the past year, demand for international travel to/from Denver has increased by 12%, more than double the U.S. average of 5%
- YTD August 2018, passenger traffic at DEN has increased by 4.3% while international passenger traffic has increased by 15.6%
 - The growth rate of international passenger traffic is nearly four times DEN's overall passenger traffic growth rate
- Domestic passenger demand at DEN is also very strong recording 15% growth over the past two years, more than the U.S. average of 10% growth

