MEMORANDUM

Date: April 25, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Airport Tax-Based Incentives Research and Options**

The Board of Supervisors recently authorized a funding allocation for the American Airlines Direct Flight Guarantee fund. The County will contribute up to $100,000 of this $3 million fund.

During the discussion, it was implied that it was unusual for taxes to be used for such a fund. Attached for your review is a March 2017 report regarding several of the funds that have been used to leverage tourism and to increase economic development activity related to tourism. As you can see from the Voltaire Aviation Consulting Report, use of these funds is commonplace; and in most cases, they are almost exclusively tax supported rather than public/private funding.

Most tax-based incentives take the form of a revenue guarantee, which is similar to the American Airlines Fund. In Wyoming, they provide a direct $6.4 million income tax subsidy for providing services to multiple airports. Near the end of the report, there is discussion on business guarantee as a revenue source, particularly as it provides air service to Vail and Telluride, Colorado. These revenue guarantees are a fraction of the tax-based incentives contained in the report.

In the American Airlines Revenue Guarantee, the public funding of the County and City comprise only 5.8 percent of the revenue guarantee that may be paid to American Airlines. The balance was privately raised capital.

CHH/anc

Attachment

c: Dr. John Moffatt, Director, Economic Development Office

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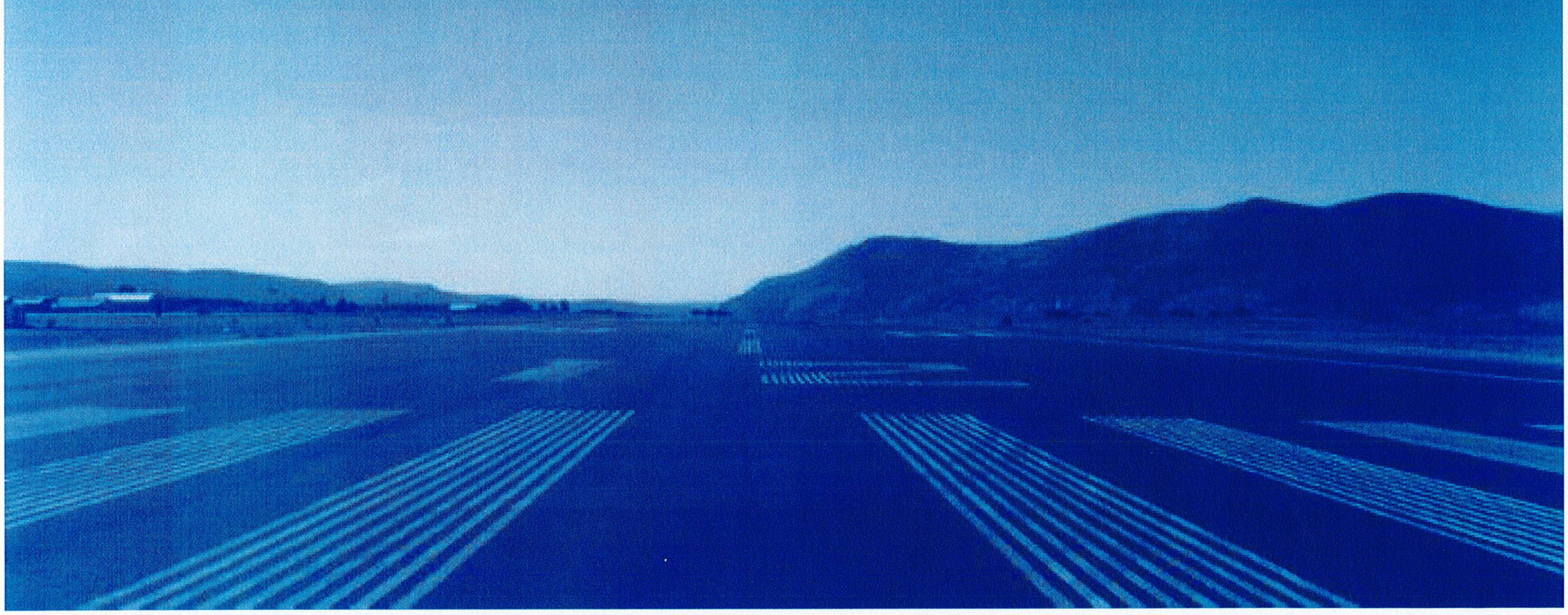
AIRPORT TAX-BASED INCENTIVES RESEARCH AND OPTIONS

PREPARED FOR
SOUTHWEST OREGON REGIONAL AIRPORT



OTH
North Bend Oregon
Southwest Oregon Regional Airport

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March 2017

AIRPORT INCENTIVE PROGRAMS

There is no comprehensive research available to determine the number of airport authorities and districts leveraging their tax income to support airline service. Limited research has been done on the topic, and because of the often confidential nature of airline negotiations and agreements, it can be difficult to find detail on how the programs are structured.

However, a number of resort destinations have been open in discussing how they have leverage tax income to support new service. Two major ski resort destinations in Colorado use sales taxes to support service (refer to chart 1). A ski resort in California has been open about its use of a hotel tax to guarantee airline revenue on new routes. The City of Bismarck, North Dakota used general fund tax revenue for new service. While the State of Wyoming continually subsidizes service to its remote airport through tax income.

CHART 1: AIRPORTS LEVERAGING TAX REVENUE FOR AIRLINE SERVICE
SOURCE: VOLAIRE AVIATION ANALYSIS, MARCH 2017

Market	Type of Tax	Annual Amount	Service Supported	Type of Program
Gunnison, CO	Sales (1%)	$3,500,000	Alaska Airlines, Los Angeles	Revenue Guarantee
			American Airlines, Chicago and Dallas/Ft. Worth	Revenue Guarantee
			United Airlines, Houston	Revenue Guarantee
Steamboat Springs, CO	Sales (0.25%)	$4,000,000	Alaska Airlines, Seattle/Tacoma, San Diego	Revenue Guarantee
			United Airlines, Houston	Revenue Guarantee
Mammoth Lakes, CA	Hotel Tax	$1,500,000	Alaska Airlines, Seattle, San Diego, Orange County	Revenue Guarantee
			United Airlines, Los Angeles, San Francisco	Revenue Guarantee
Bismarck, ND	City Gen. Fund	$200,000	Frontier Airlines, Denver	Revenue Guarantee
State of Wyoming	Income Tax	$6,400,000	Multiple Services to Multiple Airports	Direct Subsidy

The county in which Gunnison, Colorado's airport sits collects a 1% sales tax on behalf of the airport (refer to chart 1 on previous page). That funding, which totals roughly $3.5 million per year, is used exclusively for developing new and enhanced air service. In the last five years, the funding has led to new service from three airlines on four new routes, illustrating its success. It is important to note, the funding never touches the airport. While the airport works on airline recruitment, all of the air service agreements are signed directly between the county and the air carrier, so as to avoid airport non-discrimination FAA rules.

The same arrangement is used in Steamboat Springs, Colorado, where Hayden County collects the sales tax and negotiates revenue guarantee agreements with airlines independently. The tax in Steamboat generates roughly $4 million per year and has been used in the last three years to leverage service on two carriers to three new markets (refer to chart 1 on previous page).

In Mammoth Lakes, California, the airport receives funding from hotel taxes and a Tourism Business Improvement District (TBID), put into effect in September 2013, with a five-year life. The funds from the TBID are collected by the town of Mammoth Lakes and then distributed by Mammoth Lakes Tourism, a 501(c)6 nonprofit. The TBID money is used to provide minimum revenue guarantees to the airlines, but again, the guarantee comes from the non-profit and the tax never touches the airport, itself.

In Bismarck, North Dakota, the City owns and operates the airport. The City used general fund revenue, from property taxes, to fund a revenue guarantee for Frontier Airlines service (refer to chart 1 on previous page). Again, because the tax revenue was not collected by the airport, itself, it did not have to abide by FAA non-discrimination rules. The Frontier service, in fact, was launched on a route where an incumbent already provided daily service (United to Denver).

In all of these cases, the tax funding is provided a revenue guarantee to a carrier – and not a direct subsidy. A revenue guarantee agreement includes a negotiated target-revenue amount for the carrier to earn. If the carrier earns less than the targeted amount, the community makes-up the different. If the airline earns more than the targeted amount, the community owes nothing. These agreements reduce community risk and still provide an airline with its targeted margin on a new route.

The State of Wyoming's airport system uses a straight subsidy methodology on its airline-support projects. Wyoming subsidizes service to four of its airports. The Air Service Enhancement Program subsidizes flights to the Yellowstone Regional Airport in Cody, the Jackson Hole Airport, the Gillette-Campbell County Airport, and the Rock Springs airport. The direct subsidy is paid to the airline regardless of the number of passengers it carriers or the revenue it earns.

CHART 2: **AIRPORTS WITH OTHER ANNUAL PROGRAMS TO SUPPORT AIRLINE SERVICE**
SOURCE: VOLAIRE AVIATION ANALYSIS, MARCH 2017

Market	Type of Support	Annual Amount	Service Supported	Type of Program
Eagle/Vail, CO	Business Guarantee	$500,000	Air Canada, Toronto	Revenue Guarantee
			American Airlines, New York Kennedy	Revenue Guarantee
Telluride, CO	Business Guarantee	Varies	American Airlines, Dallas/Ft. Worth	Revenue Guarantee

Other resort destinations lean on local businesses (primarily the resorts, themselves) to develop airline service. Research shows both Eagle/Vail and Telluride, Colorado have business coalitions that collect funding from resorts and associated companies to be used for airline revenue guarantees in the support of new service (refer to chart 2). These programs have been successful, but North Bend/Coos Bay has only one resort with the financial ability to provide these types of incentives: Bandon Dunes.

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