PHX

Phoenix Sky Harbor
International Airport

International Air Service Incentive Program Effective March 2024

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INTERNATIONAL AIR SERVICE INCENTIVE PROGRAM
PHOENIX SKY HARBOR INTERNATIONAL AIRPORT
For agreements made: April 14, 2024 until April 14, 2028

Phoenix Sky Harbor International Airport (the “Airport” or “PHX”) has designed this Air Service Development and Marketing Program (the “Program”) to stimulate the growth of international air service, promote competition and market new international service to support a successful launch. This document describes the Program, in accordance with the 2023 guidelines set forth by the Federal Aviation Administration (“FAA”) and approved by the Phoenix Mayor and City Council on March 6th, 2024.

<u>Definition of Terms</u>

PHX: Phoenix Sky Harbor International Airport
The Program: The Incentive Program outlined in this document
FAA: Federal Aviation Administration
Director: City of Phoenix Aviation Director
Qualifying Service: Eligible for incentives
Airport Destination: The airport receiving new service from the origin airport.
Currently*:* The FAA defines ‘‘currently’’ as meaning the time immediately prior to the signing of an incentive agreement.
Incumbent Carrier: An air carrier currently providing air service to the origin airport.
New Entrant Carrier*:* An air carrier that is not currently providing any air service to the origin airport.
New Service: Any nonstop service to an airport destination not currently served with nonstop service from the origin airport; **or** a significant increase in capacity on preexisting service to a specific airport destination.
Preexisting Service: Service to any airport destination that is currently served nonstop from the origin airport. An airport destination served nonstop only in one season is considered not currently served nonstop during the off-season.
Seasonal Service*:* Nonstop service that is offered for less than 7 months of the calendar year.

Types of Service Eligible for Incentives Under This Program:

I. New Nonstop International Destination

- Marketing incentives and fee waivers, as outlined below, are available to any airline that launches passenger service to an international market that is unserved, subject to the following requirements:
    - There is no service to that destination at the time of service launch (if a destination is served seasonally, the FAA defines that destination as not being currently served during the off-season.)
    - In the event of a merger, ownership or name change, the marketing funds will transfer, as long as the service remains in effect and a new contract is executed.
    - Route must be flown for at least five consecutive months.
    - Incentives for new nonstop international destinations are offered for the first two years of qualified service.
- Airlines that have served the route and stopped that service, within the previous twelve months, are not eligible to qualify as newly serving a route.

II. Significant Capacity Increase

- If an airline provides a significant capacity increase to an already served international market of more than 50% in either seats for sale or frequency of flights then the airline may be eligible for marketing reimbursement and fee waivers for one year. The incentive for a significant capacity increase is no more than 50% of the maximum eligible amount based on frequency and destination (detailed in the tables below).

III. Seasonal Service

- Seasonal Service (to an airport destination not currently served) is allowed to receive incentives for three seasons of service, up to three consecutive years from the start of the incentive. The total maximum amounts detailed in the charts below still apply but can be used over three seasons.

IV. New Entrants Serving an Already Served International Destination

- For new entrant airlines launching service to an international destination that already is served, all common-use turn, landing, EDS and Federal Inspection Service fees are eligible to be waived up to $200,000 for the first year of qualifying service. Service must be at least three days/week for five consecutive months to qualify.

- If a new entrant is launching service to an unserved international destination, then the incentive schedule for new nonstop international service applies.

<u>Total Eligible Incentive</u>

Per FAA guidelines, the Airport may offer an incentive program that is comprised of fee waivers and marketing reimbursement dollars.

Under PHX’s Program, an airline may decide how much of the total incentive available is used for fee waivers and how much is used for marketing incentive funds as long as the total amount of marketing incentive funds does not exceed 70% of the total incentive. Additionally, no more than 60% of the available marketing incentive funds can be spent during the first contract year. The maximum amount for fee waivers and marketing reimbursements must be agreed upon prior to the execution of the incentive contract and included in the contract. Please see the breakout table below for each region.

The contract must be signed and executed between the Airport and the airline and the marketing plan approved in writing prior to the Airport waiving fees or paying marketing reimbursements.

TOTAL AVAILABLE INCENTIVE AMOUNTS BASED ON LOCATION AND FREQUENCY

Tier One ***Asia, Europe, the Middle East, or Africa*** **Total Incentive Amount Available Over the Two-Year Period (or Three Seasons if Seasonal Service)**			
Frequency *(round trips per week to an unserved international market)*	Maximum Total Amount *per eligible route*	Maximum Amount Marketing Funds (70% of total available funds)	Maximum Amount in Marketing Dollars *that can be spent during the first year* (No more than 60% of available marketing funds)
1-2x weekly	**$3,000,000**	**$2,100,000**	**$1,260,000**
3-4x weekly	**$4,000,000**	**$2,800,000**	**$1,680,000**
5+ weekly	**$5,000,000**	**$3,500,000**	**$2,100,000**

Tier Two **Central America, South America, Puerto Rico*, U.S. Virgin Islands, Caribbean** **Total Incentive Amount Available Over the Two-Year Period (or Three Seasons if Seasonal Service)**			
Frequency *(round trips per week to an unserved international market)*	Maximum Total Amount *per eligible route*	Maximum Amount Marketing Funds (70% of total available funds)	Maximum Amount in Marketing Dollars *that can be spent during the first year* (No more than 60% of available marketing funds)
1-2x weekly	**$1,000,000**	**$700,000**	**$420,000**
3-4x weekly	**$1,500,000**	**$1,050,000**	**$630,000**
5+ weekly	**$2,500,000**	**$1,750,000**	**$1,050,000**

Tier Three **Canada and Mexico** **Total Incentive Amount Available Over the Two-Year Period (or Three Seasons if Seasonal Service)**			
Frequency *(round trips per week to an unserved international market)*	Maximum Total Amount *per eligible route*	Maximum Amount Marketing Funds (70% of total available funds)	Maximum Amount in Marketing Dollars *that can be spent during the first year* (No more than 60% of available marketing funds)
1-2x weekly	**$250,000**	**$175,000**	**$105,000**
3-4x weekly	**$500,000**	**$350,000**	**$210,000**
5+ weekly	**$750,000**	**$525,000**	**$315,000**

Marketing Reimbursements

Proposed marketing activities and plans for the new service must be approved, in writing, in advance by the City of Phoenix Aviation Department. Examples include but are not limited to advertising, promotional events and paid social media campaigns. The Airport cannot reimburse for advertising of the service using the owned media of the airline such as the airline's website or airline managed social media platforms.

Advertising for the new service must promote the use of the airport and include the airport's logo and/or mention of the airport as well as be pre-approved in writing by the airport.

Once the promotional activity is executed and paid for by the airline, the airline may submit an invoice for reimbursement to the Airport. When submitting the overall invoice(s) to the Airport for payment, the airline must include the paid invoices from the agreed-upon marketing activities along with proof of performance and a copy of the executed advertisement/activity. A proof of performance may include metrics such as how many clicks a digital advertisement received or how many bookings resulted from an ad or sales activity.

Marketing funds may be paid out in total during any timeframe agreed upon by the airline and the Airport as long the amount does not exceed 60% of the total eligible amount in the first year. For example, the airline and airport may determine it most effective to invoice monthly, or at the end of a season's service.

There are no matching funds required for this program. No reimbursements will be made to the airline prior to the first flight.

General Fee Waivers

All common-use turn, landing, EDS and Federal Inspection Service (FIS) fees are eligible to be waived for each of two consecutive years of qualifying service (three if seasonal) up to the amount listed in the executed incentive contract for service to an unserved destination. Leased space is not included in the fee waiver.

The amount of fee waivers the airline is eligible for cannot exceed the total incentive amount available for the service as outlined in the tables above. The actual amount of fee waivers will be based on if the airline flies the intended schedule. If the airline flies less than intended or less than included in the incentive agreement, that portion cannot be used for marketing fees unless included in the incentive contract. At no point can the Airport pay an airline directly above and beyond the charges the airline incurred.

The only amount the Airport can pay an airline is the agreed-upon amount for marketing reimbursements for activities that were approved in writing and are paid for by the airline for which backup documentation is submitted to the airport.

Note that if PHX is supplementing FIS with out-of-pocket costs due to late hours, etc. this benefit may not apply.

Extraordinary External Circumstances

- As per the FAA Air Service Incentive guidance, Airport sponsors can use their own discretion when choosing whether to offer incentives for a carrier to restart service that the same carrier had offered previously but canceled due to extraordinary external circumstances (*e.g.,* an extreme natural, manmade, or public health crisis, such as hurricanes, terrorism, or pandemic).
- In any event, discretion for service restart may not be used to extend an incentive beyond the limits provided in this policy.

Additional Information

The incentives offered under this Program are available to all airlines meeting the Program criteria. The full details of any incentive offered under this Program will be included in the contract between the airline and the Airport. In addition, gate space and facilities accommodations for qualifying routes at PHX must be pre-approved, in writing, by the City of Phoenix Aviation Department. Any incentive offered by the Airport under this Program is subordinate to the Airport's grant assurances made to the FAA.

A carrier eligible for an incentive must notify the Aviation Department in advance of the initial service announcement of the intention to take advantage of the incentive. An initial draft of the marketing plan must be submitted to the Aviation Department within 60 business days of the airline's notification to the Aviation Department that the carrier intends to take advantage of the marketing incentive. If the carrier does not provide a draft marketing plan within 60 business days, the City reserves the right to end negotiations.

Marketing support contract agreements must be executed prior to the commencement of a qualifying route's first flight for an airline to receive any incentives outlined in this program. If a marketing support agreement is not in place at the time of the first flight, the Aviation Department reserves the right to deny incentives for the route.

If an airline takes advantage of the incentives offered in this document and does not fulfill its service commitment, it may be required to reimburse funds paid by the Aviation Department.

An eligible airline must sign the legal agreement within 60 days of receipt from the the Aviation Department. If the airline does not sign the legal agreement within 60 days, the Aviation Department reserves the right to end negotiations.

If Airline "A" publishes a qualifying service; then Airline "B" also publishes a qualifying service to the same destination and this causes Airline A to cancel service, Airline A will not be required to reimburse the Aviation Department any marketing funds.

Incentive agreements by groups not affiliated with the Airport, such as Arizona business or tourism organizations, are independent of this Program.

The Aviation Director has the discretion to interpret and apply the Program, within budget and in accordance with FAA guidelines, in order to fulfill the objectives of this Program. If questions arise, the Director will have discretion in determining what constitutes a qualifying new service under this Program.

The Director may alter the program at any time as long as the up-to-total incentive amount does not go above the amount that the Phoenix City Council approved with Ordinance S-50660 and the revised plan is made public for at least 30 days before a change takes place.