



Federal Aviation
Administration



Air Carrier Incentive Program Guidebook:

A Reference for Airport Sponsors



Cover and Above Photo: FAA

This publication provides guidance to airport sponsors interested in offering promotional incentives to attract new air carrier service at federally obligated facilities.

For additional information and assistance, airport sponsors may contact their FAA Airports District Office.
See pages 25-27.

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ACO-1**

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Differences: Destination Marketing

A properly structured and administered Air Carrier Incentive Program may enhance air carrier service at an airport and may create an opportunity to increase traffic. However, a destination marketing program promotes a region, attraction, or business.



Photo: King County Boeing Field

The goal of the latter focuses on increasing regional revenue, not an airport's services or facilities. While the airport's services and facilities may benefit from a destination marketing program, the sponsor may not use airport revenue to promote any kind of general economic development. This includes activities, materials, and expenses related to tourism marketing, showcasing community events or businesses, and/or featuring non-airport locations, services, and attractions.

In accordance with Federal statutes (49 U.S.C. § 47107(1)) and the FAA's Policy and Procedures Concerning the Use of Airport Revenue (64 Fed. Reg. 7696, February 16, 1999) (Revenue Use Policy), airport revenue **may** be used to cover:

- The full costs of activities directed at promoting competition at an airport
- Public and industry awareness of airport facilities and services
- New air service and competition at the airport (other than direct subsidy of air carrier operations prohibited by Section VI.B.12 of the Revenue Use Policy – see “New Service” on Page 6)
- A share of promotional expenses such as marketing, advertising, and related activities designed to increase travel using the airport (must meet requirements prescribed in the Revenue Use Policy, Section V.A.3 and include specific information about the airport)

Airport revenue **may NOT** cover:

- Destination or tourism marketing
- Any activities, materials, or expenses for general economic development not related to the airport (see Section VI.B.3.)
- Marketing or promotional activities unrelated to airports or airport systems (see Section VI.B.4.)

Four Steps to Creating an Air Carrier Incentive Program

Step

1 Review and understand Airport Sponsor Assurances and applicable laws and policies.

Step

2 Identify the goals of the program and the types of service that may be covered under incentive programs.

Step

3 Define incentive program timelines.

Step

4 Design a properly structured incentive program.

If, after reviewing this handbook, you have additional questions, you may contact your local FAA Airports District Office. You also may submit your proposed program to FAA for a compliance review. This process can identify -- and help sponsors eliminate -- potential problems. See pages 25-27 for FAA offices and contact information.

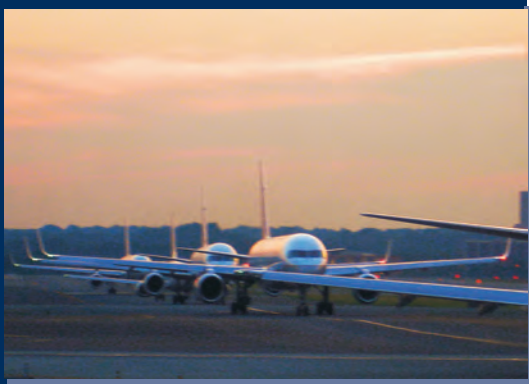


Photo: FAA

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Review and understand Airport Sponsor Assurances and applicable laws and policy.

When airport sponsors accept funds from FAA-administered airport financial assistance programs, they must agree to comply with certain contractual obligations or assurances. Assurances appear in the application for federal assistance and become part of the final grant offer. They also are included in restrictive covenants to property deeds. An example of applicable policy that may affect air carrier incentive programs includes:

Exclusive Rights and Economic Nondiscrimination.

The airport sponsor must make the proposed incentives (e.g., reduced landing fees) available to all similarly situated air carriers that provide the specified new service in accordance with Grant Assurances 22 and 23. Incentives may not be based on aircraft type since this could unreasonably exclude certain carriers that do not operate the type of aircraft identified. Incentive levels may vary, however, based on the category of new service offered (for examples, see Question 9 on Page 10). The program must identify the incentives available for each category. The cost of providing incentives to one or more air carriers cannot be included in the rate base for air carriers not participating in the incentive program without their express permission. For more information and examples, see Pages 13, 22, and 23.

Sponsors also must ensure incentive programs comply with all applicable laws and policies, including, but not limited to:

- FAA's *Policy and Procedures Concerning the Use of Airport Revenue*, 64 Fed. Reg. 7696 (February 16, 1999), 49 U.S.C. §§ 47107(b), 47133 (*Revenue Use Policy*);
- FAA's *Policy Regarding Airport Rates and Charges*, amended at 73 Fed. Reg. 3310 (July 10, 2008); originally published at 61 Fed. Reg. 31994 (June 21, 1996), 49 U.S.C. § 47129(b) (*Rates and Charges Policy*); and
- 49 U.S.C. § 41713 Preemption (Prices, Routes, and Service).

2 Identify goals of the program and the types of service that may be covered.

New Service.

FAA allows promotional incentives to air carriers for *new service* to (a) increase travel using the airport and/or (b) promote competition at the airport. Incentive programs may not be designed for the purpose of promoting general economic development. *See page 3, "Destination Marketing."*

FAA defines new service as (a) service to an airport destination not currently served, (b) nonstop service where no nonstop service is currently offered, (c) new entrant carrier, and/or (d) increased frequency of flights to a specific destination. (In the last case, the incentive would be available only on the added flights.) FAA does not recognize repeated seasonal service, upgrade of equipment type, or increased number of seats on existing flights as new service.

Destination.

The airport sponsor may offer marketing incentives (e.g., reduced landing fees) to attract new service to targeted airport destinations. The airport sponsor identifies the new service it is seeking. The airport sponsor is not obligated to provide an incentive for those destinations not targeted by the sponsor.

NOTE

Incentives v. Subsidies



Throughout this booklet, there are numerous references to incentives and subsidies. The FAA's *Revenue Use Policy* maintains a distinction between subsidizing air carriers and the waiving of fees as incentives; summarily the Policy prohibits the former.

A **subsidy** is direct payment of airport revenue to a carrier or to any provider of goods or services to that carrier, in exchange for additional service by the carrier.

An **incentive** is any fee reduction, fee waiver, or use of airport revenue for acceptable promotional costs, where the purpose is to encourage an air carrier to increase service at the airport.

See Page 17 for Acceptable v. Unacceptable Incentives

Keywords:

New entrant	Equipment/Seats
Routes	Class of service
Pro-rated incentive	Limits
New service	Signatory carriers
Low cost carrier	Request for Proposals (RFP)
Targeting/tailoring incentives	

What You May Do:

Q1: May I offer incentives to new entrants only and not to incumbent air carriers?

A1: *Yes, but the incentives in that case must be limited to no more than one year. After one year, the new entrant would be considered a tenant air carrier (similarly situated) and no longer a new entrant. It then would be similarly situated to any other tenant air carrier on the airport. In addition, the incentive must be available to all new entrants on the same basis. The incentive program may not select one new entrant and deny the program to another similarly situated new entrant as that could be unjustly discriminatory.*

Q2: May I offer an incentive to a new entrant on a route already flown by an incumbent without offering the same incentive to the incumbent?

A2: *Yes, but only for the first year. This is allowed because the new entrant would not be similarly situated to the incumbent. However, after one year, the FAA would consider the air carriers offering service on the same route to be similarly situated; in that case, you may not offer an incentive to one without also offering it to the other.*

See page 16 for the differences between one and two year limits.

Q3: If the incentive is for new daily service, may I offer a pro-rated incentive for less than daily service?

A3: *Yes, but you would not be required to do so. The airport sponsor may elect to offer an incentive for less than the specified service. The policy on this issue should be clearly explained in the incentive program, and may not be unjustly discriminatory.*

What You May Do (continued):

Q4: Do I have to offer the same incentive for incumbents already serving the destination I am choosing to incentivize?

A4: *You may or you may not, but there are restrictions either way.*

If you do, the incentive must be only for new scheduled service to that destination without any loss in previously scheduled service to the same destination. For example, if the air carrier already offers three flights weekly to the destination being incentivized and adds two more flights under the incentive for a total of five flights, the two additional flights would qualify for the incentive, but not the first three flights. If the air carrier changes its schedule, adding two new flights but dropping one for a total of four flights to the named destination, the air carrier would qualify for the incentive on one new flight only. It is important to write the incentive program so that this is clear.

If you do not, you may only offer the incentive to the new entrant(s) for service on that route only for up to one year. After one year, the new entrant would be considered similarly situated to incumbent carrier(s) and thereby no longer eligible for an incentive only offered to new entrants providing service on that route.

Q5: May I specify that an air carrier will not qualify for a new service incentive if it had – and then canceled – service to that same destination within a specified period of time? For example, if an air carrier had service to the named destination previously, but cancelled that service within the last six months, could that air carrier be prevented from participating in the incentive program as new service?

A5: *Yes. An air carrier may be barred from participating in the incentive for new service to a destination it previously served within a specified period of time. The incentive program must be clear on what the time period is and its limits, both looking forward and looking back. The program may not be unjustly discriminatory.*

See page 9 for an example of new service eligibility requirements.

What You May Do (continued):

Your airport wants to increase service to New City Airport (“END”). Airline A currently offers two flights per day.

March Flight Schedule to "END"

Airline	Flight	Departure Time
Airline A	111	8:00 a.m.
Airline A	112	12:00 p.m.

In response to the incentive program, Airline A ceases Flight 112 and adds Flight 113; Airlines B and C start service to “END.” Airline A is not eligible for the incentive program because Flight 113 replaced flight 112. Airline A did not increase service, it only changed its schedule; therefore, there is no additional service and thus it does not meet the program’s criteria to increase service. Airlines B and C are eligible for the incentive because they added new service.

November Flight Schedule to "END"

Airline	Flight	Departure Time
Airline A	111	8:00 a.m.
Airline A	113	5:00 p.m.
Airline B	222	8:00 a.m.
Airline C	333	2:00 p.m.

Suppose Airline A retains its original schedule with Flight 111 departing at 8:00 a.m. and Flight 112 departing at 12:00 p.m., but also **adds** Flight 113 departing at 5:00 p.m. In the scenario below, Airline A’s Flight 113 may be eligible for the incentive program because is it an additional flight and therefore qualifies as new service if the program’s goal is to increase service. Airlines B and C also qualify for the new service incentive.

November Flight Schedule to "END"

Airline	Flight	Departure Time
Airline A	111	8:00 a.m.
Airline A	112	12:00 p.m.
Airline A	113	5:00 p.m.
Airline B	222	8:00 a.m.
Airline C	333	2:00 p.m.

However, if the program’s stated goal is to increase competition, Airline A’s new flight would not be eligible; Airlines B and C would only be eligible for up to one year at which time they would be similarly situated to Airline A.

What You May Not Do:

Q6: We are trying to attract a low cost carrier. May I offer an incentive only to a low cost carrier?

A6: *No. Incentives must be for new service, not for a specific type of carrier. Targeting only low cost carriers would violate the grant assurance on economic nondiscrimination, and could possibly violate the exclusive rights grant assurance.*

Q7: May an incentive be tailored for a particular air carrier?

A7: *No. All similarly situated air carriers must have the same opportunity to receive the same incentives under the same circumstances. Incentives may not be designed and offered to air carriers on an individual basis.*

Q8: May the incentive be limited to air service provided by aircraft that must offer both coach service and either business or first class service?

A8: *No. Incentives may be based on routes selected by the airport sponsor, not on service or equipment provided by the air carrier.*

Q9: May the incentive be based on the type or size of aircraft?

A9: *No. Incentive levels may vary based on the category of new service offered. For example, incentives for international destinations may be different from incentives for short hop flights, but all air carriers meeting the destination requirement specified must be offered a comparable incentive based on the goals of the air carrier incentive program. The program must identify the incentives available for each category. The program may not be unjustly discriminatory.*

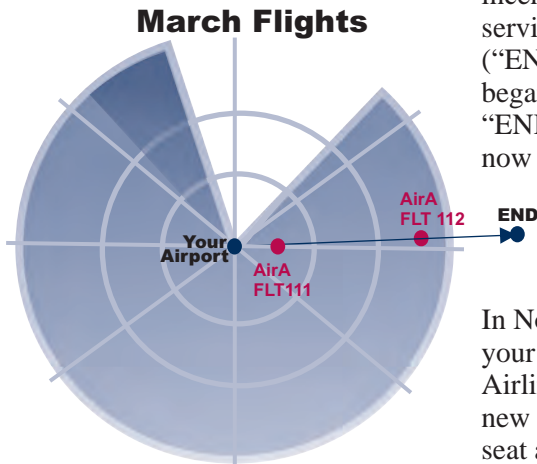
Q10: Can the incentive apply only if the new service adds a certain number of seats to the market?

A10: *No. Incentives must be based on destinations the airport sponsor wishes to support, not equipment the air carrier chooses to use or the number of passengers who choose to use the new service.*

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Frequently Asked Questions Program Goals and Types of Service

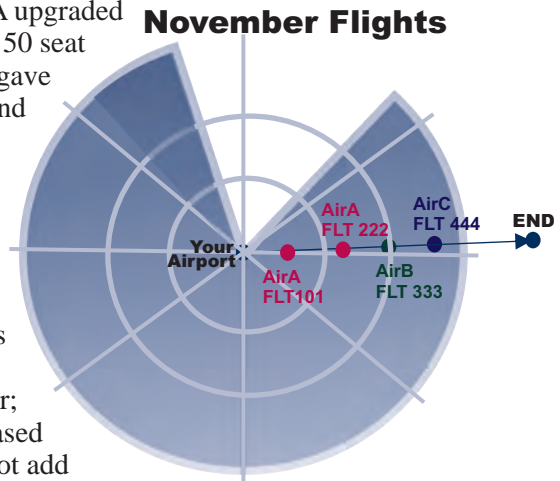
What You May Not Do (continued):



Your airport wants to offer incentives to airlines to add/begin service to New City Airport (“END”). In March, Airline A began offering two flights to “END” on 50 seat aircraft. It’s now September and you want to increase service to “END” so you implement an incentive program specifying this.

In November, two months after your incentive program began, Airlines B and C began offering new flights to “END” also using 50 seat aircraft.

Also in November, Airline A upgraded its two existing flights from 50 seat aircraft to 126 seat aircraft, gave both flights new numbers, and moved the second flight to later in the day. In this scenario *Airline A is not eligible for the incentive program* because: 1.) the first two flights entered service in March, which was months before the incentive program began in September; and 2.) Airline A only increased its gauge of aircraft, it did not add an additional qualifying flight.



Airlines B and C, both offering new service on 50 seat aircraft, are eligible.

See page 22 for more information on incremental discounts.

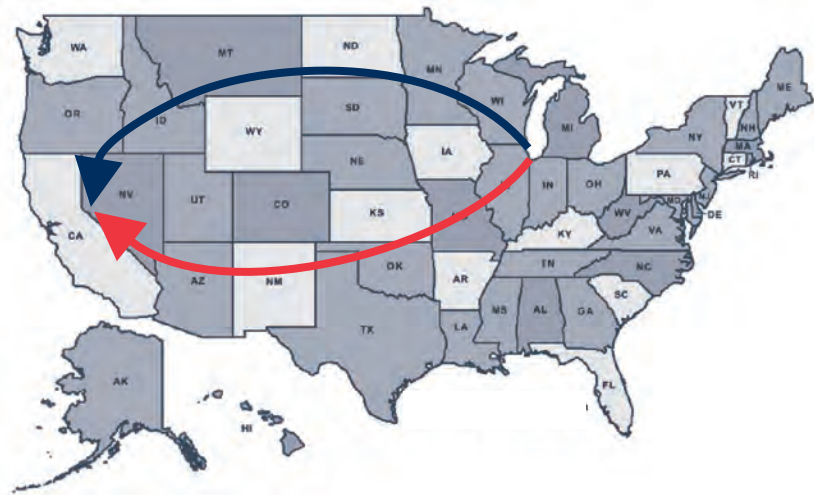
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Frequently Asked Questions Program Goals and Types of Service

What You May Not Do (continued):

Q11: May incentives be limited to aircraft with at least a certain number of seats?

A11: *No. Incentives must be based on the airport destinations the airport sponsor wishes to support, not equipment the air carrier chooses to use.*



You offer an incentive for airlines to begin service from Chicago to Reno.

- ◆ **Uniworld Airlines** begins once daily service using a CRJ-700.
- ◆ **TransAmerican Airlines** begins once daily service using a B737.

Both airlines are eligible for the same incentive.

Q12: May I limit the incentives to one incentive per air carrier?

A12: *No. The incentives are for the destination, not the carrier. You may limit the incentives per destination. This limitation must be clearly explained in the incentive program and may not be unjustly discriminatory.*

What You May Not Do (continued):

Q13: Do I have to consult with tenant air carriers before designing and initiating an incentive program, similar to a rates and charges consultation?

A13: *No. However, the airport sponsor may find it advisable to involve tenant air carriers in the development process to identify any areas that may create red flags for the sponsor, but it is not required. The cost of providing incentives to one or more air carriers cannot be included in the rate base for air carriers not participating in the incentive program without their express permission, so rates and charges will not be affected by the incentive program.*

Q14: We have a residual airport use agreement with signatory air carriers. Do I have to consult with them before designing and implementing an air carrier incentive program?

A14: *No. Again, it is recommended, but not required. Since the airport sponsor cannot include the costs of the incentive program in the rate base without the express written permission of all air carriers, there is no direct negative impact to the air carriers. (However, the airport sponsor must ensure it complies with its own signatory agreement.)*

Q15: May I require an air carrier to be a signatory in order to qualify for an incentive?

A15: *No. Incentives must be offered on a nondiscriminatory basis to all air carriers meeting the airport's new service goals.*

Q16: May I offer the incentive on a first-come, first served basis?

A16: *Possibly. A small airport that can support only one carrier is encouraged to use a Request for Proposals (RFP) to give every carrier an equal opportunity to be that one carrier. Larger airports may set a cap on what they will spend in total for incentives, but the program should include a sufficient level of incentives to cover a number of carriers that may qualify.*

3

Define incentive program timelines.

Now that you have identified the goals of the program and the qualifying service(s) to be included in the incentives, next we consider timelines. While a sponsor's air carrier incentive program may be ongoing for several years, each air carrier's incentive period should be limited to no more than two years except under special circumstances (e.g. new entrants, see page 7. Also, see page 16 for more information on the differences between incentive program time limits for new entrants versus incumbents).

ARRIVING FROM	AIRLINE/FLIGHT	TIME	GATE	CLAIM	REMARKS
Atlanta	DELTA 621	10:42A	13	3	Landed
Chicago-O'Hare	UNITED 7154	10:47A	5	4	Landed
Cincinnati	DELTA 5664	11:05A	15	3	Landed
Detroit	DELTA 2874	11:35A	4		Landed
Philadelphia	DELTA 3269	11:47A	12	4	On Time
Atlanta	DELTA 1624	12:00P	13	3	Now 11:49A
Newark	Continental 2416	12:03P	2	2	Now 11:51A
New York-LGA	DELTA 5033	12:07P	15	3	Now 12:44P
Boston	DELTA 6239	12:11P	15	3	Now 11:49A
Charlotte, NC	DELTA 2358	12:16P	12	4	On Time
New York-LGA	DELTA 3303	12:30P	14	4	Now 12:49P
Atlanta	DELTA 1564	1:06P	13	3	Now 12:43P
Cleveland	Continental 2042	1:32P	4	2	Now 1:17P
Houston	Continental 2069	1:47P	2	2	Now 1:38P
Charlotte, NC	UNITED 2252	1:51P	14	4	On Time
Washington-IAD	UNITED 5209	2:02P	5	4	Scheduled

Sample Service Schedule

The incentive program must be for a specified duration. Timelines for offering an incentive program may be staggered but the time period for each incentive offered to similarly situated, eligible carriers must be limited to no more than two years. (See page 16). Remember, an incentive program tests the viability of discrete markets. It is not a subsidy to air service. If the service cannot stand on its own after two years, it may not be viable at this time.

In this example, the Incentive Program started on January 1, 2008, and ends on December 31, 2012. Airlines participate in staggered terms but none exceed two years and all must conclude when the program ends.

SAMPLE PARTICIPATION TIMELINES

Air Carrier	Incentives Begin	End
RedJet Airlines	03-01-08	02-28-10
Take Me There Air	10-15-08	10-14-10
Northern Airways	01-01-09	12-31-10
Air Plane	09-09-09	09-08-11
FlyAway Airlines	12-01-11	12-31-12

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Frequently Asked Questions Define incentive program timelines.

Keywords:

Time periods
New entrant
Incumbent

New destination
Eligibility limits

What You May Do:

Q17: If my airport does not have service to “NEW” airport and I offer an incentive, how long may that incentive last?

A17: *The incentive period must be limited and should be defined. The incentive period must not exceed two years for each qualifying air carrier based on each new destination. Since there currently is no service to “NEW” airport, any carrier that starts qualifying service under the incentive program is eligible for the incentive in accordance with your program’s limit, but the time period for incentives for each participant should be no more than two years.*

Q18: Do I have to limit my incentive program to two years?

A18: *No. The program itself may be for a longer period of time, which should be defined in the incentive program. (See “Sample Participation Timelines” graphic page 14.) However, incentives for each carrier must be limited to no more than two years for each new qualifying service.*

Q19: Do I have to offer incentives for two years for each new destination I want to incentivize?

A19: *No. The airport sponsor may decide to offer the incentive for any period of time up to two years. This should be clearly explained in the incentive program.*

Q20: May I offer the same incentive to both new entrant and incumbent carriers, but extend the new entrant carrier's incentive for a longer period of time after the first year?

A20: *No. After one year of service, the FAA considers all carriers to be similarly situated.*

See page 16 for the differences between one and two year limits.

3

Frequently Asked Questions Define incentive program timelines.

What You May Do (continued):

Q21: May I limit eligibility to participate in the program to a relatively short period of time? For example, can I require airlines to apply to participate within 30 days and initiate service by a specified date?

A21: *The FAA may determine that such a requirement is unjustly discriminatory if it finds one or more air carriers had advance planning time. It is more reasonable to set up the incentive program to permit participation at different points within a given set of dates. Incentives will only apply after service is initiated.*

One Year vs. Two Years

This booklet references one year time limits versus two year limits. There are two different time limits based on the way the incentive program is structured.

One-year time limits apply to incentives for new entrants when the incumbent offering the same service is not getting any incentive.

North Airport (NOA) currently offers service to South Airport (SOA) provided once daily by FlyAway Airlines. NOA wants to increase competitive service to SOA, so it offers an incentive to new entrant airlines without providing any incentive to incumbent air carriers.

RedJet Airlines establishes a presence at NOA and begins once daily service from NOA to SOA that is eligible for the incentive program. FlyAway's existing service is not eligible for the incentive because the program is limited to new entrants; however, this type of incentive must be **limited to one year** because a new entrant is deemed similarly situated to incumbent carriers after one year.

Two-year time limits apply when all air carriers (new entrants & incumbents) are offered an incentive.

Using the NOA to SOA scenario, if NOA also included as part of its incentive program **added** service to SOA and incumbent FlyAway began offering a second daily flight from NOA to SOA, then the second daily flight would be eligible for the incentive. This type of incentive may be available to incumbent and new entrant carriers for **up to two years** provided it is available to all air carriers adding the specified new service.

If NOA does not offer incumbents incentives for added service, then the incentives to new entrants must end after one year because after a year of service, the FAA considers all carriers to be similarly situated.

4

Design a properly structured incentive program.

The final step is to structure the incentive program within acceptable parameters. While an airport may offer discounts or waivers of fees and rates as part of the program, the use of airport revenue to pay an air carrier to serve markets is strictly prohibited by FAA's *Policy and Procedures Concerning the Use of Airport Revenue*, 64 Fed. Reg. 7696 (February 16, 1999) (*Revenue Use Policy*). This section discusses acceptable versus unacceptable incentives an airport sponsor may offer as part of an air carrier incentive program in accordance with FAA policy and the sponsor's federal obligations. This section also covers permitted subsidies using tax revenue that is not subject to the *Revenue Use Policy*.

Acceptable Incentives.

Incentives may include, but are not limited to, waiving or reducing landing fees, rental fees, or fuel flowage fees. An airport's rates and charges for air carriers not participating in the incentive program may not be impacted negatively by any incentive program without the carriers' express permission. Any financial deficit as a result of these incentives must be covered by other discretionary airport revenue or by non-airport revenue sources. The airport sponsor may use airport revenue to advertise the new service provided the airport is featured prominently in the advertising. Air carriers may be mentioned too.

Unacceptable Incentives.

Consistent with the *Revenue Use Policy* and statute, the airport sponsor may not use airport revenue for air carrier subsidies. Subsidies would include providing aircraft parts, free fuel, interest-free loans, pay for service, or any other form of direct or indirect air carrier subsidy. State or local taxes on aviation fuel (except taxes in effect on December 30, 1987) are considered to be airport revenue subject to the revenue-use requirement and may not be used in such an incentive program. (*Note: While revenues from state taxes on aviation fuel may be used to support state aviation programs or for noise mitigation purposes, on or off the airport, the incentive and subsidy programs described here cannot be considered state aviation programs.*)

Non-airport revenue sources.

FAA does not allow airport sponsors to use airport revenue subject to the Revenue Use Policy for air carrier subsidies under any circumstances. However, sometimes the sponsor may have separate tax revenue not subject to the Revenue Use Policy that could possibly be used for direct air carrier subsidies. For example, some airport authorities benefit from special tax districts, similar to school tax districts, in which local property owners pay a tax surcharge dedicated to support of the airport. The taxes are based on property location and value, and have no relation to use of the airport. The taxing authority may be either the sponsor or a non-sponsor. Revenue that is derived from such a tax imposed for the benefit of the airport, but on property not owned by the airport, is not considered airport revenue subject to the Revenue Use Policy. Thus, revenues from a property tax for the benefit of the airport could be used for air carrier subsidies. In those cases, the airport sponsor must make this subsidy available to all similarly situated air carriers providing the same level of new service. (Whenever the airport has revenue not subject to the Revenue Use Policy that it intends to use for subsidies, the sponsor must ensure these funds are maintained in a separate account and are not comingled with other airport revenue.)

In addition, under certain circumstances, a local government or community organization (e.g., local chamber of commerce) not affiliated with the airport sponsor may offer a subsidy to one air carrier without making the same offer available to all similarly situated air carriers. In those cases, the sponsor must not be a party to the agreement and must not be involved in negotiating, implementing, or monitoring the program in any manner.

EAS and SCASDP.

The Air Carrier Incentive Program is **NOT** related to the Essential Air Service (EAS) or the Small Community Air Service Development Program (SCASDP), both of which are administered by the Office of the Secretary of Transportation. (For more information on these programs, visit www.dot.gov)

4

Frequently Asked Questions Design a properly structured incentive program.

Keywords:

Landing fees	Airport revenue
Rents	Ticket prices
Fuel flowage fees	Cash incentives
Rebates	Guarantees
Marketing/advertising	Increased weight
Payments	Rate base
Loans	FAA funds/PFCs

Acceptable Incentives Include:

Q22: May I reduce the landing fee down to zero?

A22: *Yes. You may charge a reduced or no landing fee for the incentive period. However, an airport may not have the other carriers make up the difference for the lost revenue in the landing fee requirement because of the incentive program. In addition, the airport sponsor retains the obligation to make the airport as self-sustaining as possible under the specific circumstances existing at that airport.*



Photo: FAA

Q23: May I reduce terminal rents down to zero?

A23: *Yes. An airport may charge reduced or no terminal rents (zero) for the incentive period. However, an airport may not have the other carriers with terminal leases make up the difference in the terminal rent requirement because of the incentive program.*

In addition, the airport sponsor retains the obligation to make the airport as self-sustaining as possible under the specific circumstances existing at that airport.

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Frequently Asked Questions Design a properly structured incentive program.

Acceptable Incentives Include (continued):

Q24: May I offer a reduced or no fuel flowage fee?

A24: *Yes. An airport may charge a reduced or no fuel flowage fee for the incentive period. An airport may not, however, provide free fuel. It may not incorporate the lost revenue because of the incentive program into the airport rate base to be covered by other air carriers. In addition, the sponsor retains the obligation to make the airport as self-sustaining as possible under the specific circumstances existing at that airport.*



Photo: FAA

See pages 6 & 17 for more information on incentives vs. subsidies

Q25: I am offering an incentive that includes reduced landing fees. May I collect the full landing fees and then provide a rebate of fees when the air carrier meets the designated threshold to earn the incentive?

A25: *Yes. However, the airport sponsor must be careful to ensure the rebate does not resemble a subsidy. The airport sponsor could apply the rebated landing fees as a credit to the next period where landing fees would be collected. The airport sponsor should not issue a check for the rebate.*

Q26: I am offering an incentive that includes marketing and advertising assistance. May I just write a check to the air carrier to cover the documented costs for these services?

A26: *The FAA recommends that the airport sponsor pay marketing and advertising costs directly to the entity providing the service. This reduces the risk and appearance of providing a direct air carrier subsidy. It also provides greater control for the sponsor. Airport revenue may be used for a proportionate share of marketing and advertising only when the airport is included in the advertising with the carrier, in accordance with the Revenue Use Policy.*

4

Frequently Asked Questions Design a properly structured incentive program.

Unacceptable Incentives Include:

Q27: May I pay for leased property not owned by the airport on behalf of the air carrier?

A27: *No. This would represent a subsidy to the air carrier; subsidies to air carriers are prohibited by the Revenue Use Policy.*

Q28: May I use airport revenue to make a direct payment to an air carrier to help defray start-up costs?

A28: *No. The Revenue Use Policy prohibits direct subsidies to air carriers.*

Q29: May I provide an incentive that includes interest-free loans to a start-up air carrier?

A29: *No. This is a violation of the Revenue Use Policy.*

Q30: May I tie the incentive to ticket price?

A30: *No. The airport sponsor may not dictate or influence the ticket price because such conduct may be considered unreasonable under Federal law and the grant assurances.*

Q31: May I provide a cash incentive to passengers who depart on the first leg of their journey from my airport?

A31: *No. The FAA considers cash payments to airport customers to be, in effect, a subsidy to air carriers in violation of the Revenue Use Policy.*

Q32: May I promise to purchase a set number of tickets from the air carrier?

A32: *No. However, the DOT offers a Small Community Air Service Development Program; funds granted under this program have different limitations on usage. See www.dot.gov for more information.*

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Frequently Asked Questions Design a properly structured incentive program.

Unacceptable Incentives Include (continued):

Q33: May I guarantee the number of seats that will be filled?

A33: *No. That could result in a subsidy paid to the air carrier in violation of the Revenue Use Policy.*

Q34: May I guarantee gross passenger revenue?

A34: *No. That could result in a subsidy paid to the air carrier in violation of the Revenue Use Policy.*

Q35: May I offer incremental discounts based on increased weight for a previously scheduled flight?

A35: *No. This does not qualify as new service. It would also appear to be based on aircraft type since the carrier would be changing the aircraft to add seats on an existing scheduled flight. Incremental discounts based on weight could be discriminatory to those airlines that do not have different sizes of aircraft.*

Your Incentive Program may NOT:

- Guarantee gross passenger revenue
- Guarantee ticket sales
- Influence ticket prices
- Include direct payments to carriers from airport revenue
- Offer incremental discounts based on weight for existing service
- Offer incentives based on incremental weight or increased number of seats on existing flights.



Photo: FAA

Unacceptable Incentives Include (continued):

Q36: We expect any lost revenue from waiving landing fees, etc., to be recovered through additional concession revenue. If this additional concession revenue is not sufficient to cover the cost of operating the incentive program, may I include the extra cost in the rate base?

A36: *No. The cost of providing incentives to one or more carriers cannot be included in the rate base for air carriers not participating in the incentive program without their express permission. The airport sponsor must have some other means for making up any shortfall resulting from the incentive program. It may not unilaterally adjust the rate base to cover extra costs from the incentive program.*

Q37: We have a residual airport use agreement with signatory air carriers. The airport has no separate discretionary income not subject to the residual agreement. Under this scenario, may concession revenues cover the cost of the incentive program in the rate base without the approval of the signatory air carriers?

A37: *No. The cost of providing incentives to one or more carriers cannot affect the rate base for air carriers not participating in the incentive program without their express permission.*

Q38: May I use funding from FAA grants or Passenger Facility Charge (PFC) collections to cover the cost of incentives?

A38: *No. This funding cannot be used to cover the cost of air carrier incentive programs.*

Q39: May I use tax revenue that is not subject to the Revenue Use Policy to offer subsidy incentives?

A39: *Yes. We recognize that some airport authorities benefit from special tax districts, similar to school tax districts, in which local property owners pay a tax surcharge that is dedicated to support of the airport. The taxes are based on property location and value, and have no relation to use of the airport. The taxing authority may be either the sponsor or a non-sponsor. Revenue that is derived from such a tax imposed for the benefit of the airport, but on property not owned by the airport, would not be considered airport revenue subject to the Revenue Use Policy.* [Answer continued on page 24]

4

Frequently Asked Questions Design a properly structured incentive program.

Non Airport Revenue Sources:

[A39 Continued] For example, revenues from a property tax for the benefit of the airport could be used for air carrier subsidies, provided the subsidy is otherwise consistent with applicable grant assurances.

Whenever the airport has revenue not subject to the Revenue Use Policy that it intends to use for subsidies, the sponsor must ensure these funds are maintained in a separate account and are not comingled with other airport revenue.



Photo: FAA

Q40: May an independent group not affiliated with the airport or airport sponsor offer subsidy incentives to a single air carrier?

A40: *Yes, but the airport and airport sponsor cannot be a party to the agreement and must not be involved in negotiating, implementing, or monitoring the program in any manner. Funds must not be funneled through the airport and record-keeping for the purpose of subsidy payments may not be maintained by the airport or airport sponsor. (Note: If the independent group is unable to support the program as initiated, the sponsor may not step in to run or pay for the program.) See also, EAS and SCASDP on page 18.*

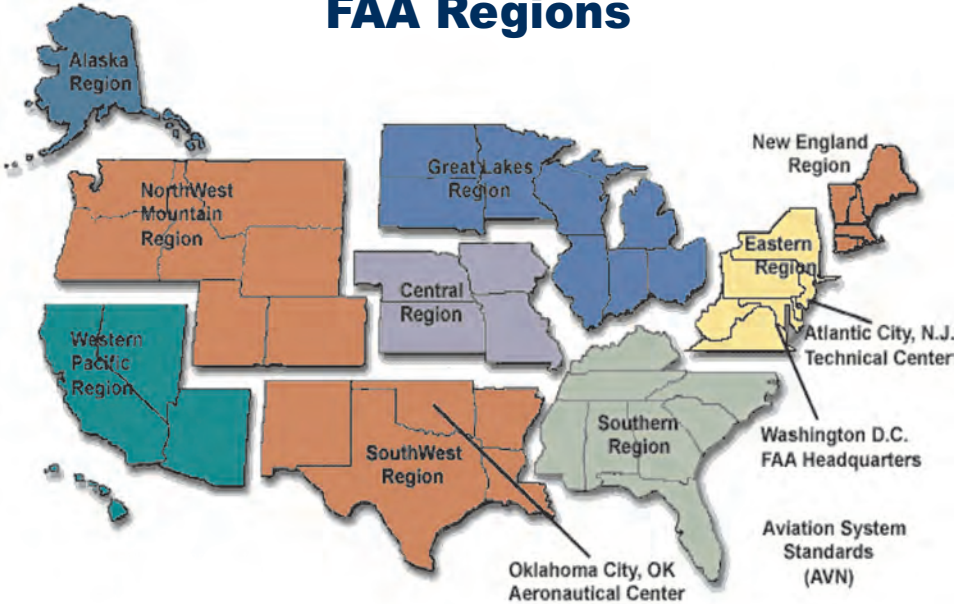
For more information on airport revenue, see FAA's Policy and Procedures Concerning the Use of Airport Revenue (64 Fed. Reg. 7696, February 16, 1999)

Q41: The airport sponsor is a member of the Chamber of Commerce. The Chamber of Commerce plans to offer a subsidy incentive from its own revenue, which is not subject to the Revenue Use Policy. The airport sponsor will not vote on issues involving the subsidy incentive program. Is there a conflict of interest?

A41: *Yes. The FAA does not consider the airport sponsor to be removed from an incentive program simply because the sponsor refrains from voting. So long as the sponsor has influence, however limited, in the negotiations or planning of an air carrier incentive program, it is obligated by the grant assurances to offer the same incentives to all similarly situated air carriers.*

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