Agenda Item No.____________

File Code No. 560.01

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 3, 2012

TO: Mayor and Councilmembers

FROM: Business & Property Division, Airport Department

SUBJECT: Proposed FY 2013 Airline Rates And Charges For New Terminal

RECOMMENDATION:

That Council approve airline rates and charges for the new Airline Terminal including an annual Airline Terminal building space square footage rate of $85; a boarding bridge fee of $65 per turn; and a landing fee of $3.40 per thousand pounds of gross landed weight effective July 1, 2012 through June 30, 2013.

DISCUSSION:

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space and landing fees, and addresses security and operational requirements.

The airline annual Operating Permit has been expanded to incorporate specific uses for the expanded building space, Airport rules and regulations, and passenger boarding equipment in the new Airline Terminal building.

Air Service Changes

As the airline industry seeks profitability with mergers and bankruptcy, air service nationwide and at Santa Barbara continues to be impacted. The airlines continue efforts to reduce capacity, removing low performing routes and grounding obsolete aircraft. In calendar year 2011, Santa Barbara's seat capacity was reduced by 12.25% from the prior year. With the seasonal service to Portland, Oregon added June 4, 2012, there are 6 non-stop destinations with service from five major airlines. However, with the reductions in seat capacity, passenger traffic for calendar year 2011 decreased 5% and year-to-date through May, the passenger count is down slightly by 3.2%.

Bond Debt Service Payments

The 2009 Bonds included capitalized interest through December 2011. The first debt service payment that requires Airport revenues occurs in June 2012. Fiscal Year 2013 operating budget includes a full year of the debt service requirement.

Methodology for Calculating Airline Rates and Charges

- **Airport Department Budget**

The new rates have been developed by using the Fiscal Year 2013 operating and maintenance budget for the Airport Department, $12,871,000 (rounded). Airport expenses are defined as all reasonable costs and expenses incidental to, necessary for, or arising out of maintaining and repairing the Airport. The calculation of airline rates, fees, and charges is based on recovering the following costs from the Fiscal Year 2013 Department Budget:

i. Direct and indirect operating expenses,
ii. Debt service associated with capital improvements less any pledged federal grants, passenger facility charge (PFC) revenues, or customer facility charge (CFC) revenues, and
iii. Annual deposits to the Mandatory Reserve Funds and the Capital Reserve Fund.

These projected expenses are allocated to five cost centers as follows:

1. Airfield – including runways, taxiways, ramp and grass areas and totaling 35% of the budget;
2. Terminal building – the new passenger terminal, including the sidewalk and curb adjacent to the landside of the terminal and the various non-airline functions in the building, and totaling 50% of the budget;
3. Passenger Boarding Bridges – at the request of the airlines a separate cost center was established for the bridges that channel passengers between the terminal and certain aircraft, totaling 0.4% of the budget;
4. Commercial and industrial –non-aviation resources including Airport property leased to private commercial and industrial tenants north and south of Hollister Avenue and totaling 10% of the budget; and
5. Other buildings and areas – including general aviation, cargo, automobile parking, landscaping, roadways, parking lots, etc. and totaling 4.6% of the budget.

The allocated costs are reduced by Airport revenues. The net amount for the Terminal building, Passenger Boarding Bridges, and Airfield (landing fee) is recovered from the airlines in annual square foot building rates, boarding bridge fees, and landing fees.

The calculation for establishing the Airline Rates and Charges is more fully described in the Attachment to this report.

- **Airline Negotiations**

Annually, the airlines and Airport staff negotiate the rates and charges for the next fiscal year. The airline properties representatives selected SkyWest Airlines' Manager of Airport Affairs as the lead negotiator and asked that he continue the discussions with the Airport on behalf of the airlines.

Airport staff met with the airline representatives on April 26, 2012. Prior to the meeting, the rate calculation spreadsheet report based on the proposed FY 2013 operating budget, and a detailed memo explaining the budget and all changes was distributed to the airline representatives.

After a thorough review of the budget data, the airlines concurred with the proposed rate changes. The building rental rate increases from $77 to $85 per square foot per year, the Boarding Bridge fee increases from $42 to $65 per turn; and the Landing Fee increases from $2.50 to $3.40 per thousand pounds of landed weight.

<u>Cost Per Enplaned Passenger</u>

Airlines use "Cost per Enplaned Passenger" (CPE) as a key indicator for their decisions about where to locate air service. The CPE is a ratio, not a specific charge. It represents the total costs of airport operations that are allocated to airlines and are charged to them in landing fees, rents or other specific charges, divided by the total number of passengers boarding planes each year.

As enplanements decrease the Cost per Enplaned Passenger ratio will increase, and as costs increase the ratio will also increase. All things being equal, CPE will get lower as passenger activity increases. Airports use the CPE ratio as a guide for cost containment and comparison with competing and/or similar sized airports.

A target Cost per Enplaned Passenger ratio with the FY 2012 rates and charges was $9.75. The actual CPE for the new facility is $8.81. The original bond financial feasibility report listed a $7.50 CPE, however, that was based on the annual passenger levels of 2008. The airlines recognize the changes that have taken place and acknowledge the reason for the increase.

<u>Airport Commission</u>

On June 20, 2012, the Airport Commission reviewed the proposed airline rates and charges and recommended approval.

ATTACHMENT: Calculation of Airline Rates and Charges

PREPARED BY: Hazel Johns, Assistant Airport Director

SUBMITTED BY: Karen Ramsdell, Airport Director

APPROVED BY: City Administrator's Office

ATTACHMENT

CALCULATION OF
AIRLINE RATES AND CHARGES

Airline Terminal Building Rental Rate
The Airline Terminal building rental rate is calculated by adding the allocation of the Airport maintenance and operating costs, Council mandated reserves, the building's debt service, and the amortization amount for Airport cash funded capital projects. The Total Terminal Cost for FY 2013 equals $7,811,000.

Revenue generated from Terminal passengers in the rental car, gift and food and beverage concessions is deducted from the Total Terminal Cost, leaving a Terminal Building Requirement of $5,743,000 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered ($5,743,000) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is $84.97 or $85.

Boarding Bridge Fee
This cost center only applies to airlines that use the passenger boarding bridges. United Express will not use the boarding bridges for turboprop aircraft.

The boarding bridge fee is calculated by adding the allocation of maintenance and operating costs, Council mandated reserves, and the debt service amount attributed to the three boarding bridges which equals the Boarding Bridge Requirement to be recovered, or $207,000.

The fee charged to the airlines is calculated by estimated the number of times the airlines will use the boarding bridges during the year based on their schedules. Each use of the bridge is called a "turn". It is estimated that there will be 4,300 "turns". The Passenger Boarding Bridge Requirement to be recovered ($207,000) is divided by the number of "turns" (4,000) which equals $64.25 or $65, the fee charged for each use of the boarding bridge.

Airline Landing Fee
The Landing Fee is a residual fee. The costs for maintenance and operation, the net debt service requirement, Council mandated reserves, and the amortization amount for Airport cash-funded capital projects are added together for a total Airport Cost Base of $14,808,000.

The Cost Base Amount is then reduced by the total revenue projected from Commercial/Industrial properties, all other non-airline revenues, the projected Airline Terminal Building space rental, and the Boarding Bridge fees. The remaining amount equals $1,689,000 which is the Airline Landing Fee Requirement.

Next the Projected Airline Landed Weight is estimated by using the airline schedules to project the number of landings and aircraft type and weight for the year. The weight used for each aircraft type is based on the published maximum gross landed weight. The landed weight projection for FY 2013 is 425,000 (1,000-pound units).

The Airline Landing Fee Requirement ($1,689,000) is divided by the projected landed weight (425,000) which equals the landing fee rate (per 1,000 lbs. of landed weight) of $3.97. However, the airlines negotiated a rate of $3.40 per thousand pound landing fee to allow a margin of error on the flight schedule and the operating cost projections.