



**CITY OF SANTA BARBARA**  
**COUNCIL AGENDA REPORT**

**AGENDA DATE:** July 18, 2013  
**TO:** Mayor and Councilmembers  
**FROM:** Business & Property Division, Airport Department  
**SUBJECT:** Proposed FY 2014 Airline Terminal Rates and Charges

**RECOMMENDATION:**

That Council approve airline rates and charges for the Airline Terminal including annual Airline Terminal building space square footage rate of \$87; a boarding bridge fee of \$56 per turn; and landing fee of \$3.46 per thousand pounds of gross landed weight effective July 1, 2013 through June 30, 2014.

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, 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 continues its efforts to consolidate and reach profitability with mergers and bankruptcy, air service nationwide and at Santa Barbara continues to be impacted. The airlines have reduced capacity both by removing low performing routes and removing inefficient aircraft, particularly the 50-seat regional jets. In fiscal year 2012, Santa Barbara's seat capacity was stable, having been reduced by 12.25% from prior years.

With the return of seasonal service to Portland, Oregon for the summer months, which was recently extended through September, there are 6 non-stop destinations with service from five major airlines. Although seat capacity has been reduced, passenger traffic has been increasing for the last ten months and for the current fiscal year to date through April the passenger count is up slightly 2%.

### Methodology for Calculating Airline Rates and Charges

- Airport Department Budget

The new rates have been developed by using the FY 2014 operating and maintenance budget for the Airport Department, \$13,789,924. An Airport expense is 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 FY 2014 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 totaling 30% 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 totaling 55% of the budget;
3. Loading bridges – at the request of the airlines, a separate cost center was established for the loading bridges which channel passengers between the terminal and certain aircraft;
4. Commercial and industrial – non-aviation resources including Airport property leased to private commercial and industrial tenants north and south of Hollister and comprise 10% of the budget; and
5. Other buildings and areas – including general aviation, cargo, automobile parking, landscaping, roadways, parking lots, etc. and comprise 5% of the budget.

The allocated costs are reduced by Airport revenues. The net amount for the Terminal building, Loading 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

After submittal of the Department's budget to the City Administrator, a detailed memo explaining the budget for FY 2014 along with the updated rate calculation spreadsheet report was distributed to the airline representatives. The airline properties

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representatives from Alaska, US Airways, American Eagle and Frontier Airlines met with staff on May 8, 2013 to review the proposed rates.

Although the rates are based on 18 months experience in the new terminal, some of the operational costs are estimated and the airlines requested that the Operating Permit include a provision for a mid-year review of the operating budget and revenues to allow time for a mid-year adjustment in rates should the airline's airline schedule, service levels, or equipment not meet projections.

After a full discussion of the rates, budget, and staff reorganization, the airline representatives concurred with the proposed rates and charges.

Cost Per Enplaned Passenger

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 or, as costs increase, the ratio will increase. All things being equal, CPE will decrease as passenger activity increases. Airports use the CPE ratio as a guide for cost containment and for comparison with competing and/or similar sized airports.

A target Cost per Enplaned Passenger ratio with the FY 2013 rates and charges was \$9.40. The actual projected CPE for FY 2013 year end is \$9.78. The FY 2014 recommended airline rates and charges coupled with projected passenger traffic results in a CPE for FY 2014 of \$10.18. The airlines recognize the changes that have taken place in service capacity and acknowledge the reason for the increase.

Airport Commission

On May 15, 2013, 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 2014 equals \$9,050,688.

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 \$6,960,658 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered (\$6,960,658) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is \$103. However, a rate of \$87 was negotiated.

#### 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 \$248,516.

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 4,400 "turns". The Passenger Boarding Bridge Requirement to be recovered (\$248,516) is divided by the number of "turns" (4,400) which equals \$56 (a 16.1% decrease from the prior year fee of \$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 \$15,895,000.

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 \$1,536,118 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 2014 is 444,000 (1,000-pound units).

The Airline Landing Fee Requirement (\$1,536,118) is divided by the projected landed weight (444,000) which equals the landing fee rate (per 1,000 lbs. of landed weight) of \$3.46.