



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 3, 2014
TO: Mayor and Councilmembers
FROM: Business & Property Division, Airport Department
SUBJECT: Proposed Fiscal Year 2015 Airline 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 \$94; a boarding bridge fee of \$90 per turn; landing fee of \$3.52 per thousand pounds of gross landed weight; and a fuel flowage fee of \$0.04 per gallon of fuel sold effective July 1, 2014, through June 30, 2015.

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, boarding bridge fees, landing fees, and addresses security and operational requirements.

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 airline industry reduced capacity nationwide by 18% in the last seven years.

On April 1, 2014, Santa Barbara lost four daily American Eagle flights to Los Angeles resulting in an estimated 13% reduction in total passengers for Fiscal Year 2015.

American Eagle passengers wishing to connect with other cities in the United States will be able to do so through U.S. Airways via its Phoenix hub. By using the Phoenix hub, the number of domestic one-stop destinations available to American passengers will actually increase. Santa Barbara will continue to have six non-stop destinations with service from four major airlines: American/US Airways, United, Alaska, and Frontier.

Airline Negotiations

The airline properties representatives from Alaska, American Eagle, US Airways, United, and Frontier airlines met with staff on March 10, 2014 to review the proposed rates based on the updated rate calculation report which was distributed to the airline representatives prior to the meeting.

- Methodology for Calculating Airline Rates and Charges

The calculation of airline rates, fees, and charges is based on recovering direct and indirect operating expenses, which total \$13,633,000 from the FY 2015 Department Budget. These projected expenses are allocated to five cost centers as follows: airfield, terminal building, boarding bridges, commercial and industrial, and other buildings and areas.

The allocated costs are reduced by Airport revenues. The net amount for the terminal building, 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 was established as part of the airline terminal financial feasibility report.

- Proposed Rates

After a thorough review of the budget data, the airlines agreed to the proposed rate changes. The building rental rate increases from \$87 to \$94 per square foot per year; the boarding bridge fee increases from \$56 to \$90 per turn; and the landing fee increases from \$3.46 to \$3.52 per thousand pounds of landed weight.

The Airlines also agreed to a proposed new fuel flowage fee of \$.04 per gallon of fuel sold for commercial carriers, with the condition that the fee be reviewed annually.

A mid-year review of the operating budget and a status report on revenues will be provided to the airlines to allow time for an adjustment of rates should the airline schedule, service levels, or equipment not meet projections.

Additionally, the airline representatives proposed that the Airport include a penalty for those airlines that do not sign the annual operating agreement. The penalty for non-signatory carriers is common practice at many airports and ranges from 25% to 50% increase in rates. A penalty of 25% increase in rates will be included in the FY2015 airline operating agreements.

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.

The following chart reflects the cost per enplaned passengers at other California airports.

	<u>Burbank</u>	<u>Palms Springs</u>	<u>Fresno</u>	<u>Long Beach</u>	<u>Monterey</u>	<u>John Wayne</u>	<u>Santa Barbara</u>	<u>San Jose</u>	<u>LAX</u>	<u>Ontario</u>	<u>San Francisco</u>	<u>Sacramento</u>	<u>Average</u>	<u>Median</u>
FY11-12	\$2.16	\$3.44	\$7.44	\$6.61	\$9.14	\$10.49	\$7.49	\$12.64	\$12.16	\$11.42	\$15.24	\$14.93	\$9.18	\$9.14
FY12-13	\$2.42	\$2.90	\$7.47	\$7.61	\$8.86	\$10.01	\$10.68	\$12.11	\$12.34	\$12.73	\$15.68	\$17.62	\$9.75	\$10.01

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 get lower as passenger activity increases. Airports use the CPE ratio as a guide for cost containment, comparison with competing and/or similar sized airports.

The actual CPE for FY2013 year end was \$10.68 and the target rate for FY2014 will be greater due to the loss of American flights to Los Angeles. The FY2015 recommended airline rates and charges coupled with projected passenger traffic results in a CPE for FY2015 of \$11.67. The airlines recognize the changes that have taken place and acknowledge the reason for the increase.

Airport Commission

On March 19, 2014, Airport Commission reviewed the proposed airline rates and charges and recommended approval.

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SUBMITTED BY: Hazel Johns, Acting Airport Director

APPROVED BY: City Administrator's Office