CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 30, 2015

TO: Mayor and Councilmembers

FROM: Business & Property Division, Airport Department

SUBJECT: Airline Rates And Charges For Fiscal Year 2016

RECOMMENDATION:

That Council approve and authorize the Airport Director to establish Airline rates and charges of $99 per square foot annually for Airline Terminal building space, boarding bridge fees of $43 per turn, and landing fees of $3.70 per thousand pounds of gross landed weight, effective July 1, 2015, through June 30, 2016.

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

Methodology for Calculating Airline Rates & Charges

The new rates have been developed by using the proposed Fiscal Year 2016 operating budget for the Airport Department of $14,281,000. 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 Fiscal Year 2016 Department Budget:

  i. Direct and indirect operating expenses
  ii. Debt service associated with capital improvements less any 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 terminal buildings 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. Boarding bridges – at the request of the airlines a separate cost center was established for the 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 buildings, 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

An updated rate calculation spreadsheet was distributed to the airlines and reviewed with the Airline representatives from United Airlines, Alaska Airlines, and American/US Airways, on January 21, 2015.

After a thorough review of the budget data, the airlines agreed to accept the following proposed rates for Fiscal Year 2016:

- The building rental rate will increase from $94 to $99 per square foot
- The per turn cost for the boarding bridges will decrease from $90 to $43
- The landing fee will increase from $3.52 to $3.70 per thousand pounds of gross landed weight.

With a changing mix of aircraft and a shift toward larger planes that need boarding bridges, more planes are using the boarding bridges. The per turn cost will decline because the anticipated costs were divided by a larger number of airlines. In addition, the Fiscal Year 2015 negotiated fuel flowage fee for commercial airlines of $.04 per gallon of fuel sold will continue.

Cost Per Enplaned Passenger

Airlines use "Cost per Enplaned Passenger" (CPE) as a key indicator for their decision 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 number of passengers boarding planes each year.

As enplanements decrease, the CPE 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, and for comparison with competing and/or similar sized airports.

The actual CPE for Fiscal Year 2014 was $10.81 and the target rate for Fiscal Year 2015 will be greater due to the loss of Frontier Airlines flight to Denver. The Fiscal Year 2016 recommended airlines rates and charges coupled with projected passenger traffic results in a CPE for FY 2016 of $13.38.

Airport Commission Recommendation

On May 20, 2015, Airport Commission recommended that Council approve the proposed Airline Rates and Charges for Fiscal Year 2015.

ATTACHMENT: Calculation of Airline Rates and Charges

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SUBMITTED BY: Hazel Johns, Airport Director

APPROVED BY: City Administrator's Office

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 2015 equals $9,561,076.

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 $7,265,383 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered ($7,265,383) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is $107. However, a rate of $99 was negotiated.

Boarding Bridge Fee
This cost center only applies to airlines that use the passenger boarding bridges.

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 $247,500.

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 5,726 "turns". The Passenger Boarding Bridge Requirement to be recovered ($247,500) is divided by the number of "turns" (5,726) which equals $43, 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 $16,754,000.

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 $2,592,370 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 2016 is 410,649 (1,000-pound units).

The Airline Landing Fee Requirement ($2,592,370) is divided by the projected landed weight (410,649) which equals the landing fee rate (per 1,000 lbs. of landed weight) of $6.31. However, a rate of $3.70 was negotiated.