Agenda Item No.____________

File Code No. 560.01

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: August 16, 2011

TO: Mayor and Councilmembers

FROM: Business & Property Division, Airport Department

SUBJECT: Proposed Airline Rates And Charges For New Terminal

RECOMMENDATION:

That Council approve airline rates and charges for the new Airline Terminal, including the annual Airline Terminal building space square footage rental rate of $77, a boarding bridge fee of $42 per turn, and a landing fee of $2.50 per thousand pounds of gross landed weight, effective August 17, 2011, through June 30, 2012.

DISCUSSION:

The airlines serving Santa Barbara operate under annual Operating Permits rather than lease agreements. The proposed 2011-2012 Operating Permit establishes rental rates for airline terminal space, landing fees, boarding bridge 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.

SBA Air Service Changes

As the airline industry seeks profitability, 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 2010, Santa Barbara's seat capacity was reduced by 9.6% from prior year. Currently there are 5 non-stop destinations with service from five airlines. Even with the reductions in seat capacity, passenger traffic for calendar year 2010 exceeded 2009 by 1.2%, and year to date through May, the passenger count is up slightly .2%.

FY 2011 Partial Year Operating Permits

Last October, it was anticipated that the new Airline Terminal Building would open and be operational in April 2011. With this in mind, a partial year Operating Permit was proposed for the period from October 1, 2010 to June 30, 2011. This agreement utilized the historical rate making methodology, which allowed Airport staff to continue negotiations with the airlines for a new rate making formula for the new building. Due to the delay in the construction schedule, the FY 2011 Operating Permit will continue until the airlines transition to the new building.

Bond Debt Service Payments

The Financial Feasibility Report prepared by Jacobs Consultancy and attached as an exhibit to the Official Statement for the Airport bond issue, maintained the same airline rates and charges through FY 2010, but assumed increased rates in FY 2011 with the completion of the new Airline Terminal building and the additional debt service requirement.

The new terminal is now scheduled to open on August 17, 2011. The 2009 Bonds have capitalized interest through December 2011. The first debt service payment that must be made using Airport revenues occurs in June 2012. Fiscal Year 2013 represents the first full fiscal year that the debt service requirement must be included in the Airport budget and in the airline rates and charges.

Methodology for Calculating Airline Rates and Charges

- Airport Department Budget

The new rates have been developed by using the FY 2012 operating and maintenance budget for the Airport Department, $12,634,000 (rounded). 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 2012 Department Budget:

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

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

1. Airfield – including runways, taxiways, ramp and grass areas totaling 35% of the budget;
2. Terminal building – the new passenger terminal building plus the sidewalk and curb area adjacent to the landside of the terminal and including various non-airline functions in the building totaling 50% 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 and comprise 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 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 4.6% of the budget.

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

The airlines' properties representatives selected SkyWest Airlines' Manager of Airport Affairs as the lead negotiator and asked that he continue the discussions with the Airport on their behalf. Discussion on the new rate methodology began last summer, with a detailed cost analysis distributed to the airlines in October 2010.

Once the Department's budget was submitted to the City Administrator, a meeting was held with the airlines on April 27, 2011. After an explanation of the City's mandatory reserve policy, the overall concept for the methodology was accepted. However, since SkyWest will have a majority of ground loading aircraft (aircraft that cannot use the boarding bridge), the airlines asked for a separate fee for the use of the boarding bridge. Numerous versions of the rate schedule were prepared to accommodate the request for a separate boarding bridge fee, and consensus was reached with all airlines on June 30, 2011. The boarding bridge fee will be assessed based on use (per "turn") and will be reported monthly along with the landing fee report.

It was agreed that the Operating Agreement include a "true-up" provision inasmuch as there is no cost history for the new facility. Proposed rates for the FY 2013 period will be based on the Department's FY 2013 budget.

- 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 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. New terminal projects and associated debt will increase CPE ratios.

Currently the CPE ratio for the Airport is $5.64. This, of course, is based on costs to maintain and operate a 21,000 s.f. terminal building with no debt. The CPE for the new terminal is based on costs to maintain a 67,000 s.f. terminal with debt service.

Santa Barbara Airport's Terminal Project budget was based on a 2008 financial feasibility analysis that determined the financial capability of the Airport. A target Cost per Enplaned Passenger ratio of $7.50 was applied to the project and used in discussions with the airlines in terms of their future costs to operate at the Airport.

Based on the new rates and current passenger traffic the CPE will be $8.06.

Airport Commission

On July 20, 2011, 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 2012 equals $7,199,000.

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 $5,198,000 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered ($5,198,000) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is $76.91 or $77.

Loading 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 loading 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 Loading Bridge Requirement to be recovered, or $180,000.

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 Loading Bridge Requirement to be recovered ($180,000) is divided by the number of "turns" (4,300) which equals $41.86 or $42, 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 $14,214,000.

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 $1,042,000 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 2012 is 450,000 (1,000-pound units).

The Airline Landing Fee Requirement ($1,042,000) is divided by the projected landed weight (450,000) which equals the landing fee rate (per 1,000 lbs. of landed weight) of $2.37. However, the airlines have agreed to maintain the current $2.50 per thousand pound landing fee to allow a margin of error on the flight schedule and the operating cost projections.