



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: November 11, 2008

TO: Mayor and Councilmembers

FROM: Administration Division, Airport Department

SUBJECT: 2008-2009 Proposed Airline Rates And Charges

RECOMMENDATION:

That Council approve the 2008-2009 airline rates and charges, including airline landing fees of \$1.98 per thousand pounds of gross landed weight, and the Airline Terminal annual building square footage rental rate of \$66.81, for all commercial air carrier operations at Santa Barbara Airport, effective October 1, 2008, through September 30, 2009.

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. Historically, rates are adjusted based on actual expenditures from the prior year.

Status of Airline Industry

The air transportation industry is facing its biggest challenge since the September 11, 2001 terrorist attacks. The airlines are impacted by a slowing U.S. economy and a 70% surge in jet fuel prices over the past year. Fuel costs have increased almost fivefold since 2001. The Air Transport Association reports that the rise in jet fuel prices will cost carriers an extra \$20 billion this year, pushing fuel costs above labor costs. The airlines are projected to lose between \$7 and \$13 billion this year.

Seven small carriers have gone out of business this year, two others have declared bankruptcy, while other carriers are merging or forming alliances. The three biggest U.S. airlines – American Airlines, United Airlines and Delta Air Lines – have announced plans to cut capacity by 10%-14%, with the biggest cuts taking place later this year. News reports indicate flight schedules for November show an 8.5% drop in the number of seats being offered on domestic flights this fall compared to a year ago.

The airlines have taken cost cutting measures including grounding older aircraft, reducing schedules, and placing employees on leave.

Tri-County Airport Changes

Changes continue to occur in the region with San Luis Obispo County Airport losing 33% of the daily departures and American Airlines closing a maintenance facility resulting in the loss of 90 jobs. Santa Maria and Oxnard Airports will see slight reductions in daily flights as well.

SBA Air Service Changes

Santa Barbara has also been impacted. Express Jet ceased all service nationwide on September 1, 2008. U.S. Airways reduced Las Vegas flights from 2 to 1, and reduced Phoenix flights from 5 to 4. American Eagle reduced service to LAX from 7 to 6 flights, however, American Eagle plans to replace the SAAB turboprops with 44 seat regional jets. Allegiant has reduced weekly departures to Las Vegas from 3 to 2.

At this time, we anticipate that Santa Barbara will maintain 10 of the 12 non-stop destinations (losing San Diego and Portland), and be served by 6 rather than 7 airlines. Although jet service will increase with American Eagle aircraft changes, it is expected that SBA will have a 15% reduction in daily departures and a 13% decrease in daily seats.

Proposed 2009 Airline Rates and Charges

The Airport has strived to maintain a low-cost environment for the airlines. Rates and charges have been established that reflect actual prior year costs. In 2008, the cost of the employee shuttle allocated to the airline employees was removed from the building rental calculation and assigned to each airline based on the number of employees. This resulted in a decrease in the square footage rate, but provided full reimbursement for the shuttle expense.

In reviewing the cost differential from fiscal year 2008 expenses with the 2007-2008 rates and charges, the increase is nominal, less than 4% with the increases in salaries and benefits for custodians and patrol officers accounting for the majority of the increased costs.

Given the uncertainty of the economy and the continued fluctuation of fuel costs, staff recommends that the airline rates and charges for 2008-2009 be maintained at the current rates of \$66.81 for the Airline Terminal annual building square footage rental rate, and landing fees at \$1.98 per thousand pounds of gross landed weight. The cost for employee parking will remain at \$3.74 per day.

Airline Consultation

On October 15, 2008, Airport staff met with airline corporate real estate representatives from Skywest Airlines (United and Delta), American Eagle, U. S. Airways, and Horizon to discuss the proposed airline rates and charges and the Airline Terminal project. The airline representatives expressed appreciation for the way in which the Airport continued to work on containing costs, especially in this turbulent economic period.

The Airport Commission recommends approval.

PREPARED BY: Hazel Johns, Assistant Airport Director

SUBMITTED BY: Karen Ramsdell, Airport Director

APPROVED BY: City Administrator's Office