DATE: March 15, 2017
TO: Airport Commission
FROM: Hazel Johns, Airport Director
SUBJECT: Airline Rates & Charges for Fiscal Year 2018

RECOMMENDATION:

That Airport Commission approve airline rates and charges for FY 2018 including annual Terminal building space square footage rate of $104, landing fees of $3.99 per thousand pounds of gross landed weight, boarding bridge fees of $46 per turn, a remain overnight fee (RON) of $46, and an "in to plane" fuel flowage fee for commercial airlines of $.05 per gallon, effective July 1, 2017 through June 30, 2018.

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.

Air Service Changes

Effective April 4, 2017, American Airlines daily flight to Dallas-Fort Worth will be upgauged from a 76-seat aircraft to a mainline 128-seat A319. Effective June 2017 United Airlines will upgauge three 50-seat aircraft to one 70-seat aircraft, one 128-seat mainline aircraft to Denver, and one 150-seat mainline aircraft to San Francisco. Alaska Airlines has notified the Airport that the summer seasonal flight to Seattle will not occur during the summer of 2017 due to equipment shortages, but anticipates that it will return in the summer of 2018. The net effect of these changes is an estimated 13.5% increase in passengers for FY 2018 vs. FY 2017. The total number of enplanements would be the highest since FY 2008. This continues a strong upward trend in FY 2017, which is projected to finish the year up 1% vs. budget, and 11% vs. FY 2016.
The following chart shows projected passengers, broken down by airline to illustrate the air service changes described above.

**FY 2017 - 2018 Projected Passengers**

<table>
<thead>
<tr>
<th></th>
<th>United</th>
<th>Alaska</th>
<th>American</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2017 1st Half Actual</td>
<td>185,455</td>
<td>60,294</td>
<td>113,030</td>
<td>358,779</td>
</tr>
<tr>
<td>FY2017 2nd Half Projected</td>
<td>166,766</td>
<td>45,835</td>
<td>126,749</td>
<td>339,350</td>
</tr>
<tr>
<td>FY2017 YE Projected</td>
<td>352,221</td>
<td>106,129</td>
<td>239,779</td>
<td>698,129</td>
</tr>
<tr>
<td>FY2018 Capacity Increase</td>
<td>86,559</td>
<td></td>
<td></td>
<td>86,559</td>
</tr>
<tr>
<td>FY2018 Projected</td>
<td>438,780</td>
<td>92,330</td>
<td>261,754</td>
<td>792,864</td>
</tr>
</tbody>
</table>

**Methodology for Calculating Airline Rates & Charges**

- **Airport Department Budget**

The new rates have been developed by using the proposed FY 2018 operating and maintenance budget for the Airport Department, $16,494,000. 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 FY2017 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 50% 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 10% 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.

- **Airline Negotiations**

An updated rate calculation spreadsheet was distributed to the airlines and reviewed with the Airline representatives on February 21, 2017. The current and proposed rates for FY 2018 are shown below:

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2017 Actual</th>
<th>FY 2018 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal Building Rental (sq.ft./year)</td>
<td>$101</td>
<td>$104</td>
</tr>
<tr>
<td>Landing Fees (per 1000 lbs.)</td>
<td>$3.88</td>
<td>$3.99</td>
</tr>
<tr>
<td>Boarding Bridge Fixed Cost Center (per turn)</td>
<td>$37</td>
<td>$46</td>
</tr>
<tr>
<td>Remain Overnight (RON) Fee (per night)</td>
<td>$37</td>
<td>$46</td>
</tr>
<tr>
<td>Fuel Flowage (per gallon)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jet A</td>
<td>$.09</td>
<td>$.09</td>
</tr>
<tr>
<td>Air Carrier</td>
<td>$.05</td>
<td>$.05</td>
</tr>
<tr>
<td>Avgas</td>
<td>$.05</td>
<td>$.05</td>
</tr>
</tbody>
</table>

After a thorough review of the budget data, the airlines agreed to accept the proposed rates for FY 2018.
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 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, and for comparison with competing and/or similar sized airports.

The actual CPE for FY2016 year end was $13.64, and the target rate for FY2017 is $13.04 based upon a forecast increase in enplanements. The FY2018 recommended airlines rates and charges, coupled with significant passenger traffic and landing weight increases related to mainline service to Dallas-Fort Worth, San Francisco, and Denver, resulted in a projected CPE for FY2018 of $13.10.

PREPARED BY:  Administration Division

ATTACHMENT:  Calculation of Airlines Rates and Charges
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 budgeted for FY 2018 equals $10,157,376.

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 $7,620,300 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered ($7,620,300) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is $113. However, a rate of $104 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 estimating 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 5,398 “turns”. The Passenger Boarding Bridge Requirement to be recovered ($247,500) is divided by the number of “turns” (5,398) which equals $46, the fee charged for each use of the boarding bridge.

Remain Over Night Fee
A Remain Over Night Fee (RON) was instituted in FY 2017. The FY 2018 fee is equal to the boarding bridge fee of $46. The fee will be charged to all aircraft parked overnight on the ramp. This fee will not be assessed to Aircraft attached to loading bridges, since they pay Boarding Bridge Fees.

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 $19,400,000.

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 $3,709,223 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 2018 is 532,331 (1,000-pound units).

The Airline Landing Fee Requirement ($3,709,223) is divided by the projected landed weight (532,331) which equals the landing fee rate (per 1,000 lbs. of landed weight) of $6.97. However, a rate of $3.99 was negotiated.