



City of Santa Barbara
Airport Department

DATE: March 14, 2019
TO: Airport Commission Budget Subcommittee
FROM: Henry Thompson, Airport Director
SUBJECT: Airline Rates & Charges for Fiscal Year 2020

RECOMMENDATION:

That Budget Sub Committee recommend approval of airline rates and charges for FY 2020 to the Airport Commission, including annual Terminal building space square footage rate of \$110, landing fees of \$3.99 per thousand pounds of maximum gross landing weight (MGLW), boarding bridge fees of \$39 per turn, a remain overnight fee (RON) of \$39, an "in to plane" fuel flowage fee for commercial airlines of \$.05 per gallon, and a seasonal "per turn" fee of \$3.06 per enplaned and \$1.87 per deplaned passenger, effective July 1, 2019 through June 30, 2020.

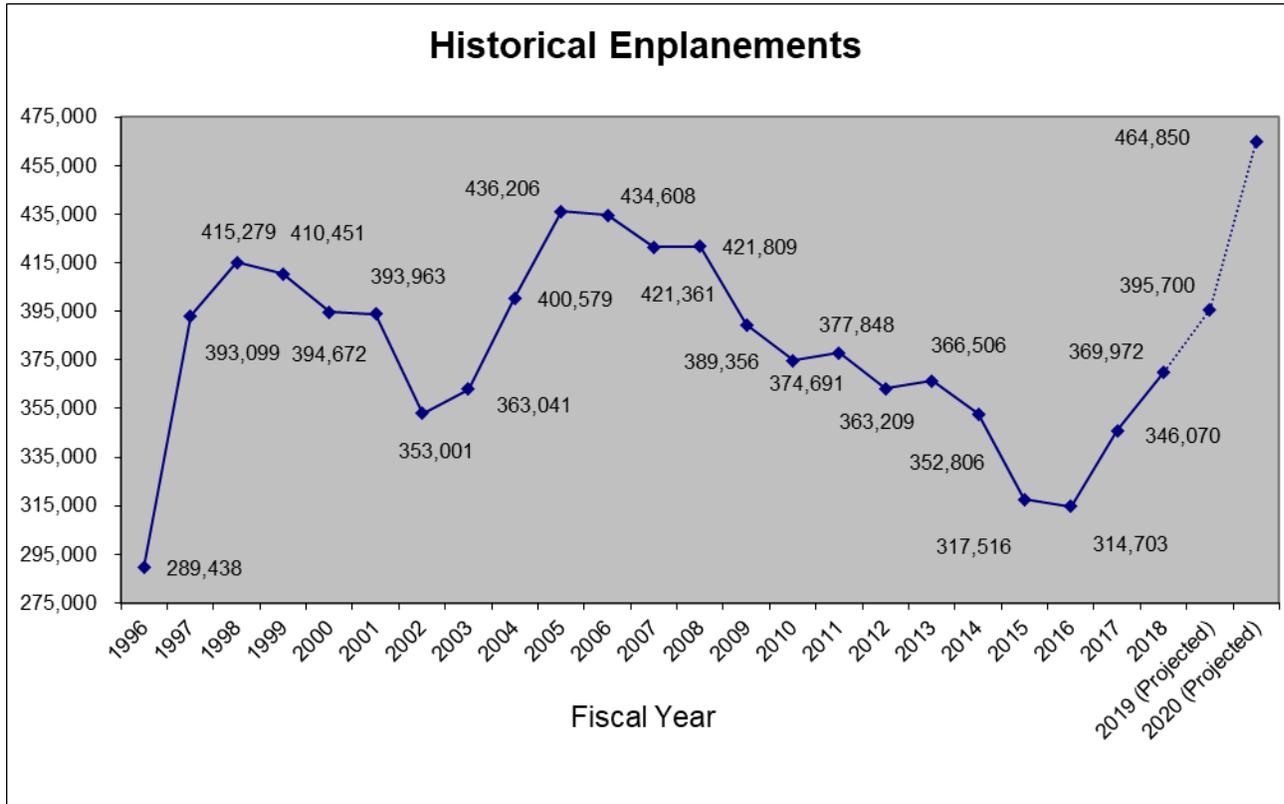
DISCUSSION:

Background

The airlines serving Santa Barbara operate under three-year operating permits for FY 2018 – FY 2020, 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. Airline rates and charges are adjusted annually based on Airport Commission approved rates and charges.

Air Service Changes

In August 2018 Frontier Airlines began 3x weekly service to Denver and Sun Country Airlines began 2x weekly seasonal service to Minneapolis-Saint Paul. Sun Country has increased its schedule beginning in May 2019 to 4x weekly. In October 2018 Contour Airlines began new daily service to Oakland and less than daily service to Las Vegas. In April 2019 Contour Airlines will begin daily service to Sacramento and will increase Oakland and Las Vegas flights to 2x daily in May 2019. Finally, Delta will begin 3x daily service to Salt Lake City in August 2019. The net effect of these changes is an estimated 7% increase in passengers for FY 2019 vs. FY 2018 and a 17.5% increase in passengers for FY 2020 vs. FY 2019. The total number of enplanements in FY 2020 would be the highest ever at SBA.



The following chart shows projected passengers, broken down by airline to illustrate the air service changes described above.

FY 2019 - 2020 Projected Passengers

| | United | Alaska | American | Frontier | Sun Country | Contour | Delta | Totals |
|----------------------------|----------------|----------------|----------------|---------------|---------------|---------------|----------------|----------------|
| FY2019 1st Half Actual | 183,264 | 58,899 | 100,737 | 11,908 | 5,649 | 3,162 | - | 363,619 |
| FY2019 2nd Half Projected | 199,365 | 64,920 | 117,537 | 20,914 | 4,267 | 20,773 | - | 427,777 |
| FY2019 YE Projected | 382,629 | 123,819 | 218,274 | 32,822 | 9,916 | 23,935 | - | 791,396 |
| FY2020 Increased Capacity | - | - | - | 9,006 | 9,998 | 18,260 | 101,040 | 138,304 |
| FY2020 Projected | 382,629 | 123,819 | 218,274 | 41,828 | 19,915 | 42,195 | 101,040 | 929,700 |

Methodology for Calculating Airline Rates & Charges

- **Airport Department Budget**

The new rates have been developed by using the proposed FY 2020 operating and maintenance budget for the Airport Department, \$18,752,000. 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 FY 2020 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 45% 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 15% 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**

Airport staff held a required Rates and Charges meeting with all SBA airlines on February 22, 2019 to discuss budget objectives and the ultimate impact of those objectives on their rates at SBA. The airlines unanimously approved the FY 2020 projected Rates and Charges which included modest rate impacts over FY 2019 based upon projected passenger growth, refinanced bonds, and increased Airport revenues. The current FY 2019 and proposed rates for FY 2020 are shown below:

| Description | FY 2019 Actual | FY 2020 Proposed |
|--|-----------------------|-------------------------|
| Terminal Building Rental (sq.ft./year) | \$107 | \$110 |
| Landing Fees (per 1000 lbs. MGLW) | \$4.07 | \$3.99 |
| Boarding Bridge Fixed Cost Center (per turn) | \$45 | \$39 |
| Remain Overnight (RON) Fee (per night) | \$45 | \$39 |
| Fuel Flowage (per gallon) | | |
| Jet A | \$.09 | \$.09 |
| Air Carrier | \$.05 | \$.05 |
| Avgas | \$.05 | \$.05 |
| “Per Turn” Fee | | |
| Per Enplaned Passenger | \$3.57 | \$3.06 |
| Per Deplaned Passenger | \$2.81 | \$1.87 |

The “per turn” fee was instituted in FY 2019 to accommodate infrequent air service of less than thrice (3x) weekly and/or seasonal air service, such as the Sun Country service to Minneapolis-Saint Paul. The “per turn” fee allows for the use of joint Airline Terminal space (baggage make-up area, baggage claim/inbound baggage, and gate/hold room space).

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 FY 2018 year end was \$13.74, and the target rate for FY 2019 is \$14.20. The FY 2020 recommended airlines rates and charges results in a projected CPE for FY2019 of \$13.38.

PREPARED BY: Airport Administration Division

ATTACHMENT: Calculation of Airline Rates and Charges