AGENDA REPORT

Ordinance: Proposed Fiscal Year 2016 Airline Landing Fee Rates and Terminal Space Rental Rates **(Aviation)**

MEETING DATE:	6/25/2015
AMOUNT:	$65,795,961 Estimated Annual Rates & Charges Revenue
PARTIES INVOLVED:	Various Passenger and Cargo Airlines, and Other Commercial Tenants, Occupying Space Within the South Airport Terminal Complex and Using the Airfield Ramps and Runways at Oakland International Airport
SUBMITTED BY:	Deborah Ale-Flint, Director of Aviation
APPROVED BY:	J. Christopher Lytle, Executive Director
ACTION TYPE:	Ordinance

EXECUTIVE SUMMARY

This action would give first reading to an ordinance (i) amending Port Ordinance No. 3634, as previously amended, relating to Landing Fee Rates and Terminal Space Rental Rates ("Rates & Charges") assessed to all scheduled, charter and itinerant passenger and cargo airlines, and charged to many other tenants occupying space within the Terminal Complex at Oakland International Airport (OAK); and, (ii) amending the definition of "Airline Services Provider" to exclude construction contractors from the obligation of paying concession fees for projects initiated by airlines, concessionaires and other tenants at the Airport.

BACKGROUND

The Port of Oakland (Port) establishes Rates & Charges by ordinance on a fiscal year basis. The Rates & Charges proposed in this Agenda Report will be effective July 1, 2015 for airlines and will be effective October 1, 2015 for other non-airline tenants.

The Landing Fee Rates are calculated based on budgeted operating expense in the Airfield Cost Center, offset by other non-airline revenues earned in the Airfield Cost Center, less an allowance for marketing incentives. The net expense is divided by the forecasted FY2016 aircraft landed weight operated by both cargo and passenger airlines.

Similarly, the methodology used to determine Terminal Space Rental Rates is based on budgeted FY2016 Terminal Cost Center operating expense, offset by budgeted concession revenue earned in the terminals plus other designated revenue, less an allowance for marketing incentives. The resulting net revenue is divided by the number of square feet leased by the passenger airlines to derive the Effective Average Terminal Space Rental Rate. There are eight "Types" of Terminal Space Rental Rates, listed on Page 7.

Finally, each year's Rates & Charges calculations also include "true-ups" derived from audited results from prior fiscal years. These true-ups are necessary because each year's Rates & Charges are calculated using <u>budgeted</u> revenues and expenses. These are subsequently adjusted (either up or down) to reflect <u>actual</u> revenues and expenses realized in each budget year. In addition, the airlines generally prefer to spread any over- or under-payments across two or more years to minimize annual Rates & Charges variability.

The Landing Fee Rates and Terminal Space Rental Rates cover the net expenses for the Airfield and Terminal Cost Centers. The airlines are not responsible for OAK's other cost centers, such as Parking, Landside/Ground Transportation, North Field and certain other rentable properties at OAK. Each year, the Port meets with the signatory airlines* to discuss the proposed Rates & Charges and to answer pertinent questions. This year's meeting was held on June 9, 2015. Based upon Aviation's proposed FY2016 budget and the signatory airlines' concurrence obtained at that meeting, the recommended Rates & Charges for FY2016 are detailed below.

<u>ANALYSIS</u>

The proposed Rates & Charges described in this Agenda Report are based on the Port's FY2016 budget for OAK's Airfield and Terminal Cost Centers. They reflect changes in Operating, Capital, Maintenance, Equipment Depreciation and Insurance costs in the Terminal and Airfield Cost Centers, that are partially off-set by anticipated non-airline revenues. The overall results include a net decrease in the Airfield costs and a reduced landing fee, and a net increase in the Terminal costs and higher rental rates.

<u>Airfield Cost Center</u>

The true-up of budgeted vs. actual revenue generated through Rates & Charges in prior fiscal years yielded a net credit of $2,971,423 ("owed" by the Port to the airlines). $1,621,051 is remaining from the FY2013 true-up. For FY2014, the total true-up credit is $2,700,744, which will be credited back to the airlines over the next two fiscal years

The overall effect of this credit true-up and decrease in Airfield Cost Center expenses is a net 9.2% decrease or $0.30 (30¢) in the Landing Fee Rate, from $3.24 per thousand pounds of landed weight in FY2015, to $2.94 in FY2016.

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* Passenger and cargo airlines that enter into the Port's standard form *Airline Operating Agreement* are considered "signatory" airlines. Non-signatory airlines pay a 25% premium on Rates & Charges as shown on the Schedule of Landing Fee Rates and Terminal Space Rental Rates.

Terminal Cost Center

The true-up of budgeted vs. actual revenue generated through Rates & Charges in prior fiscal years yielded a net credit of $1,292,750 ("owed" by the Port to the airlines). This amount will be credited back to the airlines as part of the calculation of the FY2016 Terminal Space Rental Rates. An additional adjustment for passenger loading bridge janitorial and maintenance expenses result in a further credit of $899,318 to the Terminal Net Requirement; an equal amount is then charged to the airlines for their use of the holdrooms and loading bridges, separate from the charges for terminal rents.

In addition, the Port advanced the $1,850,000 cost of tenant improvements for 4,289 square feet of office space now leased to the General Services Administration for the benefit of the Transportation Security Administration ("TSA"). Rental revenue paid by the TSA is part of the Terminal Area Revenues referenced above that are credited back to the airlines to calculate the Terminal Space Rental Rates. As part of the Terminal 1 Renovation Project, the TSA needed to vacate space in Building M102. The Port identified alternative space in the lower level of Building M103 and this transaction was authorized by Ordinance No. 4327 adopted March 26, 2015. Since the TSA has no funds for tenant improvements, the Port constructed and paid for the improvements. As part of the Rates & Charges calculation, the cost of these tenant improvements will be "paid back" to the Port over the next three budget years out of the Terminal Area Revenues used to calculate the Terminal Space Rental Rates.

The overall effect of this credit true-up, increased Terminal Cost Center expenses, loading bridge cost adjustments, and payback for TSA tenant improvements will result in a net 11.3% increase or $23.17 per square foot in the Effective Average Rental Rate, from the current $204.58 per square foot of space occupied by the airlines, to $227.75 per square foot in FY2016.

Concession Fee

Currently, the Rates & Charges ordinance assesses "Airline Services Providers" with a concession fee of ten percent (10%) of Gross Revenue, subject to a minimum monthly fee of (i) $250 for those operating on the South Field or (ii) $500 for in-flight caterers and those operating on the North Field. Airline Services Providers is defined as "any third-party company, entity or person operating at the Airport that provides services to passenger and cargo airlines, corporate and private aircraft owners, and/or any other entity operating at the Airport, including but not limited to passenger and cargo handling, in-flight catering services, aircraft washing, airline tenant space janitorial services, aircraft maintenance and repair, passenger, catering and cargo security, and specialized equipment maintenance and repair." The definition excludes "any third-party company, entity or person that provides services to Airport concessionaires who operate food/beverage, retail, news/gifts and/or duty free concession at the Airport."

Staff proposes to expand the exclusion to contractors who provide construction services to concessionaires, airlines and other Port tenants (collectively, “Airport Tenants”). Currently, contractors who do such construction work are usually hired by a single Airport Tenant, who acts as the “authorized signer” for issuing Airport ID Badges. No separate agreement is required between the Port and the contractor, because the contractor is acting as the Airport Tenant’s agent and is subject to the existing agreement between the Airport Tenant and the Port. However, occasionally, these contractors may be working simultaneously on construction projects for multiple Airport Tenants. In these cases, one Airport Tenant does not want to authorize an ID Badge for a contractor who may also be working on another Airport Tenant’s project. And prudently, the Port should not issue multiple ID Badges to the same individual working for different Airport Tenants. The solution is for the Port to enter into an agreement with each contractor and issue ID Badges directly to contractor employees. However, entering into such agreements with contractors could require contractors to pay a concession fee of ten percent (10%) of gross revenue as referenced above. Airport Tenant construction projects should not be considered “concessions” and should not trigger payment of a concession fee. Therefore, staff proposes to assess a fixed annual Administration Fee of $500.00 to cover the costs of entering into an agreement between the Port and these contractors and provide assurance that the contractor meets all Port obligations.

With these proposed FY2016 Rates & Charges, the airlines serving OAK will realize a forecasted average Cost Per Enplaned Passenger (CPE) of $9.77 for FY2016 vs. the budgeted CPE of $10.52 in FY2015. The proposed Schedule of Landing Fee Rates and Terminal Space Rental Rates (including the individual Terminal Space Rental Rates that make up the Effective Average Rental Rate) is shown on pages 7 and 8.

BUDGET & STAFFING

Approval of the proposed FY2016 Rates & Charges will generate sufficient revenue for the Port to recover net budgeted operating and capital expenses in the Airfield and Terminal Cost Centers for FY2016.

The proposed action does not have any budget or staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port’s Strategic Plan

(http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf)

Goal A: Create Sustainable Economic Growth for the Port and Beyond

- Goal A: Objective 1: Maximize the use of existing assets.
- Goal A: Objective 3: Increase revenue, job creation and small business growth.

Goal D: Improve the Port's Financial Position

- Goal D: Objective 1: Improve cash position and debt service coverage ratio (DSCR).

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

ENVIRONMENTAL

This ordinance is exempt pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15273 (a). CEQA does not apply to the establishment, modification, structuring, restructuring, or approval rates, tolls, fares, and other charges by public agencies which the public agency finds are the purpose of: (1) Meeting operating expenses, including employee wage rates and fringe benefits; (2) Purchasing or leasing supplies, equipment, or materials; (3) Meeting financial reserve needs and requirements; (4) Obtaining funds for capital projects necessary to maintain service areas; or (5) Obtaining funds necessary to maintain such intra-city transfers as are authorized by the city charter.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)

The Owner Controlled Insurance Program ("OCIP") and Professional Liability Insurance Program (PLIP) do not apply to the matter addressed by this Agenda Report as it is not a capital improvement construction or design project.

OPTIONS

1. Approve (i) the proposed Rates & Charges for Landing Fee Rates and Terminal Space Rental Rates for FY2016 to recover Airfield Cost Center and Terminal Cost Center expenses budgeted in FY2016, and (ii) amend the definition of

"Airline Services Provider" to exclude construction contractors from the obligation of paying concession fees for projects initiated by airlines, concessionaires and other tenants at the Airport. This is the recommended action. Or,

2. Do not approve (i) the proposed Rates & Charges for Landing Fee Rates and Terminal Space Rental Rates for FY2016 and maintain current rates, thereby overcharging Landing Fee Rates and undercharging the airlines and other tenants for Terminal Space Rental Rates, and (ii) do not amend the definition of "Airline Services Provider" to exclude construction contractors from the obligation of paying concession fees for projects initiated by airlines, concessionaires and other tenants at the Airport, which would obligate construction contractors to pay concession fees which would increase the cost of tenants construction projects at the Airport.

RECOMMENDATION

It is recommended that the Board adopt an ordinance amending Port Ordinance No. 3634, as amended, to (i) establish the FY2016 Rates & Charges for Landing Fee Rates and Terminal Space Rental Rates as detailed on the attached schedule, and (ii) exclude Airport Tenant's construction contractors from the definition of "Airline Services Provider" and the obligation to pay concession fees, both subject to the Port Attorney's review and approval as to form and legality.

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SCHEDULE OF LANDING FEE RATES AND TERMINAL SPACE RENTAL RATES

Landing Fees	Current Charges	Proposed – FY2016
Signatory, Based Airlines		
Landing Fee	$ 3.24	$ 2.94
Training Landing Fee	1.62	1.47
Minimum Charge Per Landing	40.54	36.70
Non-Signatory, Based Airlines		
Landing Fee	4.05	3.67
Training Landing Fee	2.03	1.83
Minimum Charge Per Landing	50.68	45.87
Non-Based Airlines		
Landing Fee	4.05	3.67
Training Landing Fee	2.03	1.83
Minimum Charge Per Landing	50.68	45.87
Terminal Space Rental Rates	**Per Sq. Ft. Per Month**	**Per Sq. Ft. Per Month**
Type I - Ticketing Counter	20.135	22.333
Type II - Office Space	18.122	20.100
Type III - Baggage Claim	16.108	17.867
Type IV - Baggage Make-Up	14.094	15.633
Type V - Ticket Counter (Common Use)	10.068	11.167
Type VI - Office Space (Common Use)	9.061	10.050
Type VII - Baggage Make-Up (Common Use)	7.048	7.817
Type VIII – Concession Office/Storage Space	3.524	3.908
Other Charges		
Holdroom, Loading Bridge	46,794.00 per month	54,479.00 per month
Secondary Use, Signatory, Based Airline with Holdroom	275.60 per enplaning operation	278.20 per enplaning operation
Secondary Use, Non-Signatory, Based Airline with Holdroom	344.50 per enplaning operation	347.75 per enplaning operation
Secondary Use, Signatory, Based Airline without Holdroom	2.12 per enplaning passenger	2.14 per enplaning passenger
Secondary Use, Non-Signatory, Based Airline without Holdroom	2.65 per enplaning passenger	2.68 per enplaning passenger
Secondary Use, Holdroom & Loading Bridge Non-Based Airline	2.65 per enplaning passenger	2.68 per enplaning passenger
Secondary Use, Signatory, Affiliated Airline	2.12 per enplaning passenger	2.14 per enplaning passenger

Other Charges (Continued)	Current Charges	Proposed – FY2016
Secondary Use, Non-Signatory, Affiliated Airline	**2.65 per enplaning passenger**	**2.68 per enplaning passenger**
Secondary Use, Signatory, Affiliated Airline Using Small Aircraft	**1.75 per enplaning passenger**	**1.79 per enplaning passenger**
Secondary Use, Non-Signatory, Affiliated Airline Using Small Aircraft	**2.19 per enplaning passenger**	**2.24 per enplaning passenger**
Baggage Claim Area, Non-Based Airline	**1.84 per deplaning passenger**	**1.78 per deplaning passenger**
Terminal Use Fee Non-Based Airline	**4.19 per enplaning passenger**	**3.89 per enplaning passenger**
Ticket Counter Use Scheduled/Non-Scheduled-Int'l/Domestic	**550.00 Per Aircraft turn**	**550.00 Per Aircraft turn**
International Passenger Handling Facilities Use Fee	**10.00 Per Arriving Passenger**	**10.00 Per Arriving Passenger**
Baggage Conveyor Facility Fee Terminal 1	**329,995.00** (Shared by all Terminal 1 Airlines, allocated by %deplaning passengers in Terminal 1)	**366,017.00** (Shared by all Terminal 1 Airlines, allocated by %deplaning passengers in Terminal 1)
Baggage Conveyor Facility Fee Terminal 2	**250,678.00** (Shared by all Terminal 2 Airlines, allocated by %deplaning passengers in Terminal 2)	**278,041.00** (Shared by all Terminal 2 Airlines, allocated by %deplaning passengers in Terminal 2)
Self-Service Check-In Unit (SSUs)	**50.00** Per Unit Per Month	**50.00** Per Unit Per Month

Airline Services Providers

All Airline Services Providers (except construction contractors) pay a Concession Fee of Ten Percent (10%) of Gross Revenue Subject to a Minimum Monthly Fee:	**Monthly Minimum Fee**	**Monthly Minimum Fee**
• **Operating at the South Field**	**250.00**	**250.00**
• **In-Flight Catering Services Providers**	**500.00**	**500.00**
• **Operating at the North Field**	**500.00**	**500.00**
		Fixed Annual Fee
• **Construction Contractors**		**500.00**