PORT OF OAKLAND

6/26/2025

AGENDA REPORT

<u>PROPOSED ACTION</u>: Ordinance: Approve Proposed Fiscal Year 2026 Airline Landing Fee Rates, Terminal Space Rental Rates, and Other Fees Generating $105.7 Million in Revenue at Oakland Airport and Amend Appendix C-1 of the Port of Oakland Administrative Code to Adjust the Proposed Fiscal Year 2026 Fees. **(Aviation)**	
<u>Submitted By</u>: Craig Simon, Director of Aviation; Kristi McKenney, Executive Director	
<u>Parties Involved</u>: Various Passenger and Cargo Airlines, and Other Commercial Tenants, Using the Airfield Ramps and Runways, and Occupying Space Within the South Field Terminal Complex at Oakland Airport	<u>Amount</u>: $105.7 million estimated annual rates & charges revenue ($47.9 million in airline landing fee revenues, $57.8 million in airline terminal rentals and use fees)
<u>EXECUTIVE SUMMARY</u>: Each fiscal year, the Port of Oakland (Port) adjusts landing fee rates, terminal space rental rates, and other fees assessed to all scheduled, charter and itinerant passenger and cargo airlines, and charged to many other tenants occupying space within the terminal complex or utilizing the airfield at Oakland Airport (OAK or Airport). The proposed rates and charges, as set forth in the Port of Oakland Administrative Code (POAC), would increase the estimated cost per enplaned passenger (CPE) by $2.57 from $16.23 in FY 2025 to $18.80 in FY 2026.	

BACKGROUND & ANALYSIS

All scheduled, charter, and itinerant passenger and cargo airlines with operations at OAK are required to pay landing fees, terminal space rentals, and other fees and charges set forth in POAC Chapter 5.02 and Appendix C-1 (Rates & Charges). Most airlines operating at OAK have entered into an *Airline Operating Agreement*[1]; a 25% surcharge, set forth in the POAC, applies to air carriers that are non-signatory, i.e., are not party to an *Airline Operating Agreement*.

The Port's Board of Port Commissioners (Board) establishes Rates & Charges by ordinance on a fiscal year basis. The Rates & Charges proposed in this Agenda Report will be effective July 1, 2025 for Signatory Airlines and will be effective September 1, 2025 for non-signatory airlines and other non-airline tenants and users of the Airport.

For Rates & Charges purposes, the Airport is divided into several cost centers: the passenger terminal areas (Terminal); the airfield, runways and taxiway areas (Airfield);

[1] "Signatory" Airlines are those airlines who have executed the Port's standard form *Airline Operating Agreement.* Signatory Airlines are members of the Airport Airline Affairs Committee (AAAC). The AAAC Member Airlines have agreed to accept a July 1st effective date for Rates & Charges even if such date would be retroactive to the adoption date of the applicable Rates and Charges ordinance.

and contract fueling activities, are all airline-supported cost centers based on the total airline requirement for each airline-supported cost center. The airlines have no financial responsibility for OAK's other cost centers, such as Ground Transportation & Access, Cargo, Leased Areas, and Rental Cars.

Rates & Charges for the Terminal and the Airfield cost centers are set annually by the Board at the beginning of each fiscal year based on budgeted expenses and anticipated revenues in the upcoming fiscal year, plus any adjustments from prior years' actual results; however, rates may be adjusted more frequently if Port Staff determines there will be either a significant revenue shortfall or revenue over-collection.

To determine Rates & Charges, Port Staff include the direct and indirect expenses allocable to each of the airline-supported cost centers for the upcoming fiscal year. The following are included in the calculation of each cost center requirement:

- ***Operating and Maintenance Expenses:*** Including surpluses and/or deficits from prior years (true-ups);
- ***Allocated Capital Costs:*** To the extent the proceeds of any Senior Lien Bonds, Intermediate Lien Bonds or Commercial Paper (CP) Notes were spent on such facilities, an allocated capital cost equal to 1.25 times debt service on the applicable Senior Lien Bonds and 1.10 times debt service on the applicable Intermediate Lien Bonds and CP Notes; and
- ***Amortization Charge:*** For the non-airline cost center capital invested in airline cost center capital projects with an interest component.

The Landing Fee Rates are derived after subtracting airfield revenues from estimated airfield expenses and dividing the resulting Airline Airfield Requirement by projected landed weight for both cargo and passenger airlines.

The proposed Rates & Charges for FY 2026 are presented in the Analysis Section and summarized in Attachment A - Schedule of Landing Fee Rates and Terminal Space Rental Rates. These rates reflect Aviation's proposed FY 2026 budget. Each year, Port Staff meets with the Airport Airline Affairs Committee (AAAC) member airlines to discuss the proposed budget and resultant Rates & Charges to discuss and answer questions. This year's meeting was held on May 19, 2025, with member airlines participating in-person and via teleconference. AAAC Member Airlines' concurrence on the FY 2026 budget and resultant rates was obtained by presenting preliminary information at the May 19, 2025, meeting and distributing final rates and charges information on May 28, 2025.

For FY 2026, the Port forecasts 9.3 million annual passengers (MAP), departing and arriving at OAK. The decline in passenger traffic in FY 2026 is primarily a result of reductions in scheduled flights and available seats to/from OAK as airline systemwide network schedules are adjusted to account for a slow return of the passenger traffic in the California Corridor, a softening in both business and personal travel along with economic factors are impacting our airline partners.

Overall, both direct and allocated operating and capital expenses at the Airport are budgeted to increase in FY 2026 relative to FY 2025 Budget. The impact of these increases varies by cost center. Capital expenses are expected to increase driven by higher cost recovery associated with capital projects completed in FY 2025 and those anticipated to be completed in FY 2026. All or portions of these cost increases, as well as the allocable share of increases or decreases in Port-wide overhead costs are included and accounted for in the derivation of Rates & Charges for FY 2026.

The proposed FY 2026 Rates & Charges described in this Agenda Report are based on:

- The Port's FY 2026 Budget for OAK's Airfield and Terminal cost centers; and,
- True-up adjustments based on FY 2024 actual results in the Airfield and Terminal cost centers

Airfield Cost Center
FY 2026, total Airfield cost center expenses are estimated at $50.5 million. The Airfield expenses are offset by estimated FY 2026 non-airline airfield revenues of $4.8 million. Additionally, there is an additional true-up charge of $2.2 million applied to the proposed FY 2026 Landing Fee Rate to make the Airport whole from an under-collection in FY 2024. This results in a net FY 2026 Airline Airfield Requirement of $47.9 million, which is $2.8 million or 6.3% more than budgeted in FY 2025.

The Landing Fee Rate is calculated by first subtracting airfield revenues from estimated airfield expenses and then dividing the resulting net Airline Airfield Requirement by the projected landed weight for both cargo and passenger airlines. Here, the projected FY 2026 landed weight of 8.675 billion pounds is less than the FY 2025 budgeted landed weight of 9.006 billion pounds.

Calculation Of Signatory Landing Fee Rate

Total Airfield Cost Center Expenses	**$50,458,000**
Less: Non-Airline Airfield Revenues	($4,780,000)
Add/(Subtract): Prior Year True-Up	$2,210,000
Airline Airfield Requirement	**$47,888,000**
Landed Weight (in 1,000 pounds)	8,675,000
Signatory Landing Fee Rate	**$5.52**

The FY 2026 Signatory Landing Fee Rate equals $5.52 per thousand pounds of landed weight, a net 10.4% increase or $0.52 per thousand pounds more than the FY 2025 budgeted rate of $5.00 per thousand pounds of landed weight.

FY 2024 True-Up Major Drivers:
- True-Up Cost of $2.2 million to account for revenue under-collection in FY 2024;
- Total airfield costs were $0.3 million or 0.7% above FY 2024 Budget, due to higher facility maintenance and airfield operations expenses offset by lower than budgeted utilities, airport and Port overhead costs allocated to the airfield;

- Airfield revenue credits were $557,000 higher due to higher than budgeted cargo and ground handling revenues, higher General Aviation landing fee revenues, offset in part by lower than budgeted truck fueling revenues;
- Landed weight was lower than the FY 2024 Budget forecast; and,
- Actual Landing Fee Rate for signatory airlines is $4.00 per thousand pounds after rounding, compared to the $3.77 rate billed in FY 2024.

FY 2026 Major Drivers:

- Landing Fee Rate of $5.52 per thousand pounds, which is $0.52 higher than FY 2025 Budget due to higher budgeted operating, and capital expenses, prior year true-up adjustments, and lower landed weight assumption;
- Total airfield capital and operating costs are 5% or $2,419,000 higher than FY 2025 Budget before offsets (e.g. FY 2024 true-up credits and revenue credits);
- Revenue credit is $470,000 higher, because FY 2026 budgeted revenue credits are estimated based in part on FY 2024 actual general aviation landing fee and fueling charges which are higher than the charges assumed in the FY 2025 Budget; and,
- Landed weight is projected to be lower than FY 2025 Budget levels.

Terminal Cost Center

FY 2026 total Terminal cost center expenses are estimated at $93.7 million. For the Terminal Cost Center, there is no revenue credit but there is a FY 2024 true-up overcollection that decreases the Total Airline Terminal Requirement by approximately $2.4 million.

Calculation Of Effective Average Terminal Rental Rate

Total Terminal Cost Center Expenses	**$93,681,000**
Less: Loading Bridge Requirement	($3,620,000)
Adjusted Terminal Requirement	**$90,061,000**
Leasable Terminal Space (Square Feet)	261,859
Effective Average Terminal Rental Rate [A]	**$343.93**
Airline Leased Space (Square Feet) [B]	148,752
Airline Terminal Requirement [AxB] - Rounded	**$51,160,000**
Less: Prior Year's True-Up	($2,407,000)
Airline Rentals	**$48,753,000**
Loading Bridge Charge	$2,372,000
Total Airline Terminal Requirement	**$51,125,000**

To establish the Effective Average Terminal Rental Rate, the Terminal Cost Center Expenses are further adjusted for passenger loading bridge, custodial and maintenance expenses, totaling $3.6 million, which are charged to the airlines for their use of the passenger loading bridges, separate from the charges for terminal rents. The adjusted Terminal Requirement of $90.1 million is then divided by the total Terminal leasable space of 261,859 square feet, resulting in FY 2026 Effective Average Terminal Rental Rate of

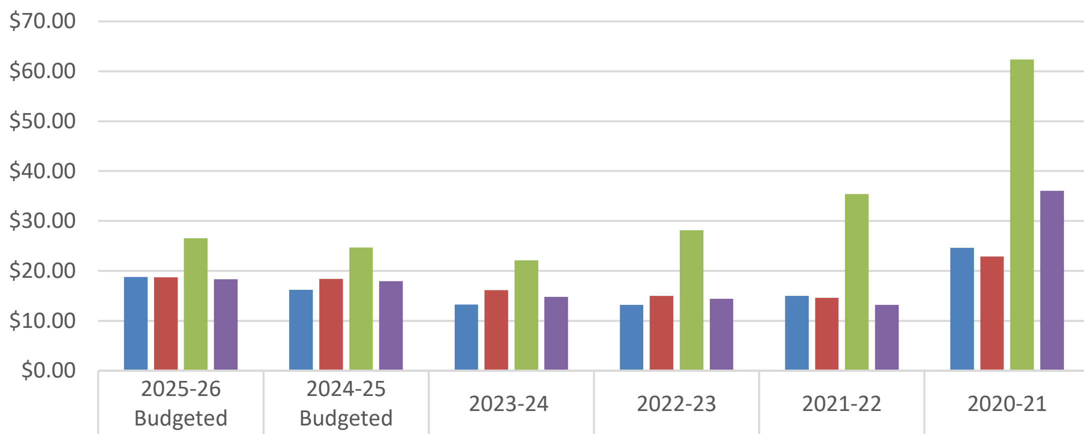
$343.93 per square foot. This $343.93 per square foot Effective Average Terminal Rental Rate is 2.1% – or $6.94 per square foot – greater than the FY 2025 rate of $336.99 per square foot.

The Total Airline Terminal Requirement (i.e. Total Airline Payment) is calculated based on Airline leased space and the Effective Average Terminal Rental Rate, plus charges for the leased loading bridges, minus any true-up adjustments, and totals $51.1 million in FY 2026, which is $448,000, or 0.9% less than budgeted in FY 2025.

Impact of Proposed Rates & Charges

Cost Per Enplaned Passenger (CPE) is a commonly used but imperfect metric to compare airports based on average passenger airline payments per enplaned passengers. With the Rates & Charges proposed in this Agenda Report, budgeted FY 2026 average CPE for passenger airline service at OAK is anticipated to be $18.80. Six years of CPE (actual or budgeted) data for OAK, Sacramento International Airport (SMF), San Francisco International Airport (SFO), and San Jose Mineta International Airport (SJC) are summarized in Exhibit 1.

Exhibit 1
CPE Comparison



	2025-26 Budgeted	2024-25 Budgeted	2023-24	2022-23	2021-22	2020-21
OAK	$18.80	$16.23	$13.24	$13.21	$14.96	$24.59
SMF	$18.69	$18.38	$16.16	$15.02	$14.62	$22.88
SFO	$26.55	$24.67	$22.11	$28.15	$35.42	$62.35
SJC	$18.34	$17.93	$14.80	$14.43	$13.20	$36.06

Detailed Rates & Charges

The proposed Schedule of Landing Fee Rates and Terminal Space Rental Rates (including seven Categories of Terminal Space Rental Rates that make up the Effective Average Rental Rate) are shown on **Attachment A**. This Schedule provides a summary of the relevant changes. A redline of the proposed amendments to the Rates and Charges, as set forth in POAC Appendix C-1, is shown in **Attachment B**.

OTHER FINDINGS AND PROVISIONS

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ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

☐ Categorically exempt under the following CEQA Guidelines Section:

Choose an item.

☐ "Common Sense" exemption under CEQA Guidelines Section 15061(b)(3).

☒ Other/Notes: Statutorily exempt under CEQA Guidelines Section 15273(a) Rates, Tolls, Fares and Charges.

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BUDGET

☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☒ Operating ☐ Non-Operating ☐ Capital

Analysis: Approval of the proposed FY 2026 Rates & Charges will generate sufficient revenues for the Port to recover eligible budgeted operating expenses, debt service payments and costs of completed capital improvements, funded with Port cash, in the Airfield ($47.9 million) and Terminal ($57.8 million) cost centers for FY 2026. These revenues will be trued up against actual expenses, based on audited FY 2026 financials.

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STAFFING

☒ No Anticipated Staffing Impact.

☐ Anticipated Change to Budgeted Headcount.

Reason:

☐ Other Anticipated Staffing Impact (e.g., Temp Help).

Reason:

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MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA):

Applies? No (Not Aviation or Maritime CIP Project) – proposed action is not covered work on Port's Capital Improvement Program in Aviation or Maritime areas above the threshold cost.

☐ Additional Notes:

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LIVING WAGE (City Charter § 728):

Applies?

No (No Covered Agreement) – proposed action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage requirements.

☐ Additional Notes:

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SUSTAINABLE OPPORTUNITIES:

Applies? **No.**

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GENERAL PLAN (City Charter § 727):

Conformity Determination:

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Reason: There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that presents sustainability opportunities.	Not Required – conformity determination not required because proposed action does not change use of or make alterations to an existing facility or create a new facility.
STRATEGIC PLAN. The proposed action would help the Port achieve the following goal(s) in the Port's Strategic Plan: ☒ Capture Our Market and Grow the Economic Base ☐ Modernize and Upgrade Infrastructure ☐ Transition to Zero-Emissions and Build Climate Resilience ☐ Maximize Land Use Value and Revenues ☐ Workforce Training and Jobs Development ☐ Create Opportunities for Local Businesses and Community Economic Development	