PORT OF OAKLAND

6/23/2022

AGENDA REPORT

PROPOSED ACTION: **Ordinance:** Approval of Proposed Fiscal Year 2023 Airline Landing Fee Rates, Terminal Space Rental Rates, and Other Fees Generating $94.3 Million in Revenue, and Amending Port Ordinance No. 4430 to Eliminate Aircraft Parking Fees for Certain Signatory Airlines at Oakland International Airport. **(Aviation)**	
Submitted By: Bryant L. Francis, C.M., Director of Aviation; Danny Wan, Executive Director	
Parties Involved: 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 International Airport	Amount: $94.3 Million Estimated Annual Rates & Charges Revenue ($39.0 Million in Airline Landing Fee Revenues, $51.6 Million in Airline Terminal Rentals and Use Fees, plus $3.7 Million in Non-Airline Terminal Rentals)
EXECUTIVE SUMMARY: This action would give first reading to an ordinance amending Port Ordinance No. 4430, relating to the annual exercise to adjust 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 International Airport. including the elimination of aircraft parking fees for certain Signatory Airlines.	

BACKGROUND & ANALYSIS

All scheduled, charter, and itinerant passenger and cargo airlines using Oakland International Airport ("OAK" or the "Airport") are required to pay landing fees, terminal space rentals, and other fees and charges ("Rates & Charges") in accordance with Ordinance No. 4430, adopted by the Board on July 13, 2017, and subsequently amended by Ordinance Nos. 4483, 4526, 4566, 4586 and 4606. Most airlines operating at OAK have entered into an *Airline Operating Agreement*[1]; a 25% surcharge, set forth by the same ordinance, typically applies to air carriers that are non-signatory, i.e. are not party to an *Airline Operating Agreement*.

The Port of Oakland ("Port") 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, 2022 for Signatory Airlines and will be effective

[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.

October 1, 2022 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"); and contract fueling activities are 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 Staff determines there will be either a significant revenue shortfall or revenue over-collection.

To determine Rates & Charges, Staff summarizes the direct and indirect expenses allocable to each of the airline-supported cost centers for the pending Fiscal Year. The following are included in the calculation of each cost center requirement:

(i) Operating and Maintenance Expenses: Including surpluses and/or deficits from prior years (true-ups);

(ii) 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,

(iii) Amortization Charge: For the Port's internally-generated capital invested in the Airport 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[2] for both cargo and passenger airlines.

Each year, Port staff meets with the AAAC member airlines to discuss the proposed Rates & Charges and to answer pertinent questions. This year's teleconference meeting was held on May 23, 2022. Based upon Aviation's proposed FY 2023 budget and the AAAC Member Airlines' concurrence obtained at that meeting, the proposed Rates & Charges for FY 2023 are presented in the Analysis Section and Appendix A – Rate Schedule.

As information, four years ago as part of the FY 2018 development of the Operating Budget and annual Rates & Charges, staff recommended, and the Board adopted, Ordinance No. 4430, which amended and restated the prior Ordinance No. 3634, which

[2] Early in the annual budget-development cycle, Aviation Staff estimates future airline flight activity based on current activity, aircraft types, and projected air service into the new fiscal year. This activity is converted into aircraft "landed weights" and reviewed with the AAAC Member Airlines for confirmation or correction. All estimates are added together to equal the total "projected landed weight" for cargo and passenger airlines.

had been modified multiple times since its adoption in 2001. This updated Rates & Charges Ordinance is now consistent with current practices and industry standards; it simplified the fee structure, revised or eliminated several categories of fees and charges, and established a better cost recovery basis for user fees and streamlined the billing process.

The proposed FY 2023 Port Budget assumes a gradual return of passenger traffic at OAK as the COVID-19 Pandemic becomes less of a concern and more of the population is vaccinated and demand for air travel accelerates. For the next 12 months, passenger traffic at OAK is expected to average 80% of FY 2019 levels. In comparison, FY 2022 passenger traffic at OAK is expected to average 73.4% of FY 2019 levels. The recovery picked up starting in March 2021 and has continued to improve through the first ten months of the current fiscal year leading to the assumption that the worst is behind us, and the Airport is on its path to a sustainable recovery. For FY 2023, the Port forecasts 10.9 MAP[3] at OAK.

The anticipated increase in passenger activity at the Airport is expected to drive increases in direct airport expenses including increases in security costs, custodial services and facility maintenance costs among others. All or portions of these cost increases, as well as allocable share of increases in Port-wide overhead costs are included and accounted for in the derivation of airline Rates & Charges for FY 2023. In total, Airfield cost center net expenses are decreasing by $2.3 million or 5.6% compared to FY 2022 budget. Terminal cost center net expenses are increasing by $4.4 million, equal to a 5.5% increase compared to FY 2022 budget.

Landed weight at OAK is expected to increase in FY 2023 as new routes are established and more passenger flights are brought back to OAK to accommodate the expected increase in demand. Some “rentable” terminal space – previously closed-off in Terminal 1 due to the Pandemic – is expected to return to its pre-COVID level.

The proposed FY 2023 Landing Fee, which considers a decrease in Airfield cost center net expenses and increase in landed weight, will decrease from last year while Effective Terminal Rental Rate will increase as further described below.

The Airport plans to apply federal aid to offset Aviation debt service due and payable in FY 2023. In total, $2.6 million of Aviation debt service will be reimbursed with a combination of CARES, and ARP Act[4] funds. Debt service reimbursed with federal aid are not included in Rates & Charges since the source of payments are grants from the federal government.

The proposed FY 2023 Rates & Charges described in this Agenda Report are based on:

- The Port’s FY 2023 Budget for OAK’s Airfield and Terminal cost centers; and,
- True-up adjustments based on FY 2021 actual results in the Airfield and Terminal cost centers.

[3] MAP = Million Annual Passengers; the total number of departing and arriving passengers at the Airport.

[4] CARES Act = Coronavirus Aid, Relief, and Economic Security Act; ARP Act = American Rescue Plan Act.

Airfield Cost Center

FY 2023, total Airfield cost center expenses are estimated at $44.9 million. The Airfield expenses are offset by estimated FY 2023 non-airline airfield revenues of $6.2 million. Additionally, there is a small true-up charge of $275,893 from an under-collection in FY 2021 to be applied to the proposed FY 2023 Landing Fee Rate. This results in a net FY 2023 Airline Airfield Requirement of $39.0 million, which is $2.3 million less than in FY 2022.

The Landing Fee Rate is calculated by dividing the net Airline Airfield Requirement by the projected FY 2023 landed weight of 10.424 billion pounds, a 7.3% increase over the FY 2022 budgeted landed weight of 9.719 billion pounds.

The FY 2023 Signatory Landing Fee Rate equals $3.74 per thousand pounds of landed weight, a net 12.0% decrease or $0.51 per thousand pounds less than the FY 2022 budgeted $4.25 per thousand pounds of landed weight.

CALCULATION OF SIGNATORY LANDING FEE RATE	
Total Airfield Cost Center Expenses	**$44,895,000**
Less: Non-Airline Airfield Revenues	(6,162,000)
Add/(Subtract): Prior Year True-Up	275,893
Airline Airfield Requirement	**$39,008,893**
Landed Weight (in 1,000 pounds)	10,424,000
Signatory Landing Fee Rate	$3.74

FY 2021 True-Up Major Drivers:

- True-Up Cost of $275,893;
- Total costs were $0.7 million or 2% below Budget, due to expense reduction measures;
- Revenue credit was $0.3 million higher;
- Landed weight was 3% below Budget; and,
- Actual Landing Fee Rate is $4.09 after rounding, the same as the budgeted rate.

FY 2023 Major Drivers:

- Landing Fee Rate of $3.74, which is $0.51 – or 12% – lower than FY 2022 Budget due to higher credit and budgeted landed weight;
- Total costs are 1.2% – or $558,000 – lower than FY 2022 Budget;
- Revenue credit is $2.0 million higher than FY 2022 Budget, mostly driven by general aviation landing fee and fueling charges; and,
- Landed weight is projected to be 7.3% higher than FY 2022 Budget levels.

Terminal Cost Center

FY 2023 total Terminal cost center expenses are estimated at $82.8 million. For the Terminal Cost Center, there is no revenue credit but there is a FY 2021 true-up over-collection that decreases the Airline Terminal Requirement by approximately $3.9 million.

CALCULATION OF EFFECTIVE AVERAGE TERMINAL RENTAL RATE		
Total Terminal Cost Center Expenses		**$82,797,000**
Less: Loading Bridge Requirement		(3,443,000)
Adjusted Terminal Requirement		**$79,355,000**
Leasable Terminal Space (Square Feet)		261,670
Effective Average Terminal Rate	**A**	**$303.26**
Airline Leased Space (Square Feet)	**B**	154,130
Airline Terminal Requirement	**A×B**	**$46,741,000**
Less: Prior Years' True-up		(3,866,000)
Airline Rentals		**$42,875,000**
Loading Bridge Charge		2,374,000
Total Airline Terminal Requirement		**$45,249,000**

To establish the Effective Average Terminal Rental Rate, the Terminal Requirement is further adjusted for passenger loading bridge janitorial and maintenance expenses, totaling $3.4 million, which are charged to the airlines for their use of the holdrooms and loading bridges, separate from the charges for terminal rents. The adjusted Terminal Requirement of $79.4 million is then divided by the total Terminal leasable space of 261,670 square feet, resulting in FY 2023 Effective Average Terminal Rental Rate of $303.26 per square foot. This $303.26 per square foot Effective Average Terminal Rental Rate is 4.7% – or $13.65 per square foot – <u>greater</u> than the FY 2022 rate of $289.60 per square foot.

The Total Airline Terminal Requirement is calculated based on Airline Leased Space and the Effective Average Terminal Rental Rate, plus charges for the leased loading bridges, and totals $45.2 million in FY 2023, which is $3.7 million, or 8.9% <u>more</u> than in FY 2022.

FY2021 True-Up Major Drivers:

- True-Up <u>Credit</u> of $3.9 million;
- Total costs were 13% – or $9.6 million – below Budget, due to aggressive expense reduction measures; and,
- Actual Average Terminal Rate should have been $259.01 vs. budgeted $296.24.

FY2023 Major Drivers:

- Average Terminal Rental Rate per square foot is $303.26 – or 4.7% higher than FY 2022 Budget; and,
- Total costs are 5.5% higher than FY 2022 Budget due to higher budgeted expenses.

<u>Resumption to Prior Methodology of Collecting Terminal 1 Baggage Claim Facility Usage Fees</u>

The costs of operating and maintaining the in-bound baggage claim facilities are collected separately for Terminals 1 and 2 and then charged to the airlines using those facilities. Southwest Airlines Co. pays 100% of the Terminal 2 Baggage Claim Facility Usage Fee.

Prior to FY 2021, for Terminal 1, the monthly charge for baggage claim facilities was shared by all Terminal 1 Airlines, allocated by the percentage of deplaning passengers; this methodology had been in place for at least twenty years and spread the cost equitably amongst the Terminal 1 airlines utilizing the Terminal 1 baggage claim facilities. However, with the drastic decrease in arriving passengers caused by the COVID-19 Pandemic, the Board approved an alternate method based on a per-passenger cost for baggage claim facilities which was effective for FY 2021 and FY 2022.

With passenger traffic approaching FY 2019 levels, this alternate method for charging airlines using the Terminal 1 baggage claim facilities is no longer necessary. Staff will not be requesting continuance of the revised method for FY 2023 and the fee for use of the Terminal 1 Baggage Claim Facility will revert to the percentage of deplaning passengers calculated on a monthly basis.

<u>Port Ordinance No. 4430: Elimination of South Field Aircraft Parking Fees for Signatory Airlines</u>:

Pursuant to Port Ordinance No. 4430, all aircraft operators pay aircraft storage fees for the time those aircraft are parked on the airfield or at the Terminal Complex. Fees are established in eight (8) hour intervals, or on a daily or monthly basis, and based on wingspan or nose-to-tail length. Rates for passenger aircraft are significantly less than for cargo aircraft, and the fee is waived for the first three (3) hours for passenger airlines. In addition, rates between North Field and South Field are not consistent. Finally, these rates have not been adjusted since at least April 2001 when Port Ordinance No. 3634 was initially adopted by the Board. Aircraft parking revenue is an offset to Airfield expenses; airlines pay to park aircraft and then receive an equal credit against the calculation of the Landing Fee. In addition, keeping track of how long each aircraft is parked is an administrative burden that does not justify the Staff time and cost.

For the past seven fiscal years, Staff recommended and the Board approved a one-year abeyance as it relates to passenger and cargo aircraft parking fees at the South Field for Signatory Airlines, and also at the North Field for FY 2021 and FY 2022. Parking Rates for itinerant airline aircraft on the South Field and North Field remain applicable. However, for FY 2021 and FY 2022, the waiver has been restricted to those Signatory Airlines that operate scheduled passenger or air cargo service at OAK.

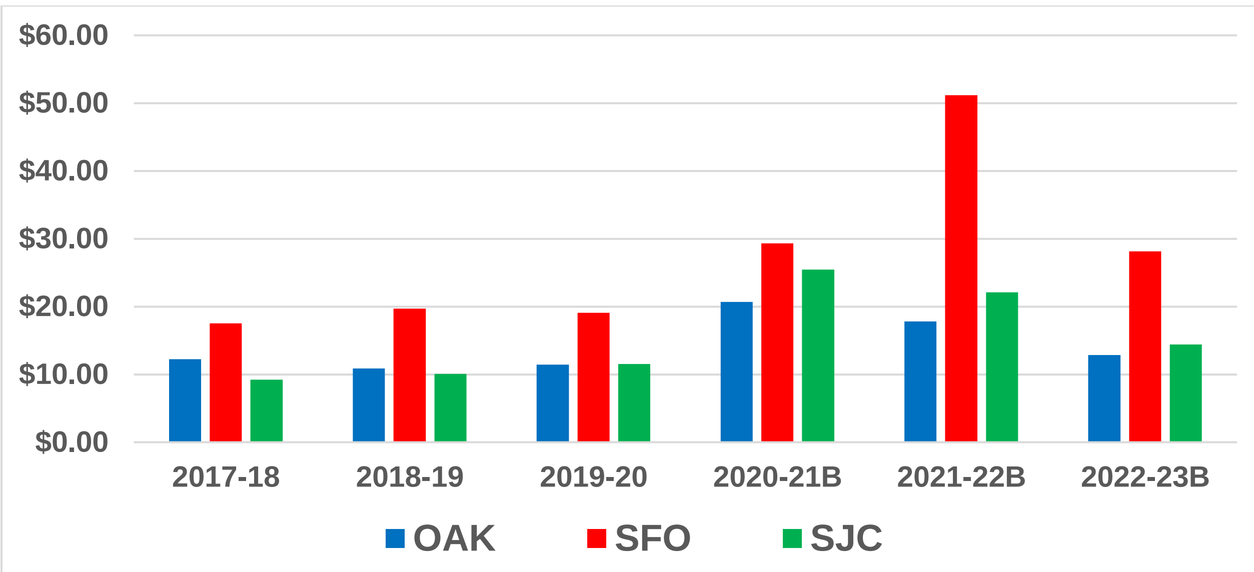
As Staff continues to research the viability of charging the commercial airlines for aircraft parking, and evaluate and rationalize the aircraft parking rate structure, we recommend an elimination of these specific aircraft parking fees, subject to a 72-hour limit to the length of time any aircraft may be parked on the airfield; any aircraft parked on the airfield in excess of 72 hours will be charged the applicable aircraft parking fee based on the Rates & Charges Ordinance. Elimination of Signatory Airline parking fees would decrease annual revenue by approximately $250,000 resulting in a minimal increase in the proposed Landing Fee Rates.

Impact of Proposed Rates & Charges. Cost Per Enplaned Passenger (CPE)[5] is a commonly used metric for comparing airport terminal and airfield expenses paid by passenger airlines. With the Rates & Charges proposed in this Agenda Report, budgeted FY 2023 average CPE for airlines serving OAK is anticipated to be $12.84. CPE (actual or budgeted) for six years is shown for OAK, San Francisco International Airport (SFO) and Mineta San Jose International Airport (SJC) as summarized in the adjacent table and graph:

Cost Per Enplaned Passenger

Fiscal Year	OAK	SFO	SJC
2022-23B	$12.84	$28.15	$14.43
2021-22B	$17.83	$51.17	$22.10
2020-21B	$20.68	$29.31	$25.45
2019-20	$11.45	$19.10	$11.55
2018-19	$10.86	$19.68	$10.07
2017-18	$12.25	$17.54	$9.24

B = Budget



Detailed Rates & Charges. The proposed Schedule of Landing Fee Rates and Terminal Space Rental Rates (including eight Categories of Terminal Space Rental Rates that make up the Effective Average Rental Rate) are shown on Attachment A.

[5] As described above, Airlines operating at OAK reimburse the Port for expenses associated with providing and maintaining the airfield and terminal facilities, less any non-airline revenues. The cost to the passenger airlines for operating at OAK can be divided by the number of enplaned passengers to compute the average airline CPE. The CPE can be compared to industry averages, other airports and other airline costs, and can be used by the Port to evaluate the financial impact on OAK's Airlines of increasing or decreasing airport operating expenses.

OTHER FINDINGS AND PROVISIONS

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.

☐ Exempt from CEQA because it is not a "Project" under CEQA Guidelines Section 15061(b)(3).

☒ Other/Notes: The proposed action is statutorily exempt under CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges).

BUDGET

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

☒ Operating ☐ Non-Operating ☐ Capital

Analysis: Approval of the proposed FY 2023 Rates & Charges will generate sufficient revenues for the Port to recover budgeted operating expenses, debt service payments and costs of completed capital improvements, funded with Port cash, in the Airfield ($39.0 million) and Terminal ($55.3 million, inclusive of other non-airline terminal rentals) cost centers for FY 2023. These revenues will be trued up against actual expenses, based on audited FY 2023 financials.

STAFFING

☒ No Anticipated Staffing Impact.

☐ Anticipated Change to Budgeted Headcount.

Reason:

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

Reason:

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:

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:

SUSTAINABLE OPPORTUNITIES:

Applies? **No.**

GENERAL PLAN (City Charter § 727):

Conformity Determination:

<table>
<tr><td><u>Reason</u>: 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.</td><td>No Project – conformity determination not required because proposed action does not change use of or make alterations to an existing facility, or create a new facility.</td></tr>
<tr><td colspan="2"><u>STRATEGIC PLAN</u>. The proposed action would help the Port achieve the following goal(s) and objective(s) in the Port’s Strategic Business Plan:

☒ Grow Net Revenues
☐ Modernize and Maintain Infrastructure
☒ Improve Customer Service
☐ Pursue Employee Excellence
☐ Strengthen Safety and Security
☐ Serve Our Community
☐ Care for Our Environment</td></tr>
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ATTACHMENT A

SCHEDULE OF LANDING FEE RATES AND TERMINAL SPACE RENTAL RATES

	Current Charges ($)	Proposed ($) – FY2023
Landing Fees		
Signatory Airlines/Based Tenant Aircraft Engaged in Commercial Operations		
Landing Fee	4.25	3.74
Minimum Charge Per Landing	53.16	46.78
All Other Aircraft		
Landing Fee	5.32	4.68
Minimum Charge Per Landing	66.45	58.47
Terminal Space Rental Rates	**Per Sq. Ft. Per Month**	**Per Sq. Ft. Per Month**
Category I: Ticketing Counter	26.262	27.203
Category II: Office Space	23.636	24.483
Category III: Baggage Claim	21.009	21.763
Category IV: Baggage Make-Up	18.383	19.042
Category V: Ticket Counter (Common Use)	13.131	13.602
Category VI: Office Space (Common Use)	11.818	12.242
Category VII: Baggage Make-Up (Common Use)	9.192	9.521
Category VIII: Concession Office/Storage Space	4.596	4.761
Other Charges		
Holdroom, Loading Bridge	60,988.67 per month	62,714.50 per month
Common Use – Signatory	754.00	649.00
Common Use – Non-Signatory	942.00	812.00
Secondary Use Fees:		
Aircraft with over 90 seats	568.00	493.00
Aircraft with 31 to 89 seats	284.00	246.00
Aircraft with 30 seats and fewer	142.00	123.00
Baggage Claim Area, Non-Based Airline	7.78 per deplaning passenger	5.53 per deplaning passenger
International Passenger FIS Facilities	12.00 Per Arriving Passenger	12.00 Per Arriving Passenger
Baggage Conveyor Facility Fee Terminal 1 (Modified Methodology for FY2021-22 Only)	6.23 (Allocated based on per deplaned passenger in Terminal 1	

	Current Charges ($)	Proposed ($) – FY2023
Baggage Conveyor Facility Fee Terminal 1	**(See above)**	**445,831.00** (Shared by all Terminal 1 Airlines, allocated by %deplaning passengers in Terminal 1)
Baggage Conveyor Facility Fee Terminal 2	**326,948.00** (Shared by all Terminal 2 Airlines, allocated by %deplaning passengers in Terminal 2)	**338,671.00** (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	**Fixed Annual Fee**
▪ **Construction Contractors**	**500.00**	**500.00**