

AGENDA REPORT

Ordinance: Approval of Proposed Fiscal Year 2018-19 Airline Landing Fee Rates, Terminal Space Rental Rates, and Other Fees Generating \$100.0 Million in Revenue, and Amending Port Ordinance No. 4430 to Waive: (i) Landing Fees for Angel Flight Operations and (ii) Aircraft Parking Fees for Signatory Airlines. **(Aviation)**

MEETING DATE: 6/28/2018

AMOUNT: \$100.0 Million Estimated Annual Rates & Charges Revenue (\$37.9 Million in Airline Landing Fee Revenues, \$58.7 Million in Airline Terminal Rentals and Use Fees, and \$3.4 Million in Non-Airline Terminal Rentals)

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

SUBMITTED BY: Bryant L. Francis C.M., Director of Aviation

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

This action would give first reading to an ordinance amending Port Ordinance No. 4430, relating to 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.

BACKGROUND

All scheduled, charter and itinerant passenger and cargo airlines using Oakland International Airport ("OAK" or the "Airport") are required to pay Airline Rates and Charges ("Rates & Charges") in accordance with the Board's Ordinance No. 4430, adopted by the Board on July 13, 2017. 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*.

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 effective date of the applicable Board-adopted ordinance.

The Port of Oakland (“Port”) Board of Port Commissioners establishes Rates & Charges by ordinance on a fiscal year basis. The Rates & Charges proposed in this Agenda Report will be effective July 1, 2018 for signatory airlines and will be effective October 1, 2018 for non-signatory airlines and other non-airline tenants.

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 others.

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 in the upcoming Fiscal Year; however, rates may be adjusted more frequently.

To determine Rates & Charges, Port staff summarizes the direct and indirect expenses allocable to each of the 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 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 weight² 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 meeting was held on May 23, 2018. Based upon Aviation’s proposed FY2018-19 budget and the AAAC member airlines’ concurrence obtained at that meeting, staff recommends approval of the proposed Rates & Charges for FY2018-19 as detailed in the Analysis and Appendix A – Rate Schedule.

As information, as part of the FY2017-18 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 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.

² Early in the 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 conveyed to each Signatory Airline for confirmation or correction. All estimates are added together to equal the total “projected landed weight” for cargo and passenger airlines.

ANALYSIS

The proposed FY2018-19 Rates & Charges described in this Agenda Report are based on:

- The Port's FY2018-19 Budget for OAK's Airfield and Terminal Cost Centers; and,
- True-up adjustments based on FY2016-17 actual results in the Airfield and Terminal Cost Centers.

The overall FY2018-19 results are summarized below and compared to FY2017-18 Rates & Charges:

AIRFIELD COST CENTER:

FY2016-17 True-Up Credit of \$1,304,000

- Total FY2016-17 actual costs came within 1% of Budget.
- Higher Facility Maintenance Expense driven by Runway 12-30 maintenance; offset by lower Field Operations costs, mostly due to staffing vacancies.
- Actual Revenue Credit is \$1.1 million higher than budgeted due to higher in-flight catering revenues.
- Actual Landed Weight within 1% of Budget.

FY2018-19 Rates & Charges

- Landing Fee Rate of \$3.14 is 1.5% or 5¢ lower than FY2017-18.
- Total FY2018-19 Operating Costs are \$3.1 million higher due to increased personnel costs and capacity planning studies.
- Estimated Revenue Credit is \$500,000 higher mostly from higher General Aviation landing fees.
- Landed weight is projected to be 8.3% higher than FY2017-18.

TERMINAL COST CENTER:

FY2016-17 True-Up Credit of \$523,145

- Total FY2016-17 actual costs came within 1% of Budget.
- Higher Facility Maintenance Expense driven by increased loading bridge maintenance; offset by lower Terminal direct costs, mostly due to staffing vacancies.
- Actual Revenue Credit is \$1.1 million higher than budgeted due to higher concession and rental car revenues.

FY2018-19 Rates & Charges Major Driver

- Effective Average Terminal Rate of \$304.37 is 6.7% higher than FY2017-18; including FY2016-17 Airline True-Up Credit, Airline Average Terminal Rate is \$301.16, or 5.5% higher than FY2017-18.
- Capital costs are \$1.3 million higher due to additional Commercial Paper principal paydown.
- Total Operating Costs are \$7.8 million higher due to: capacity planning studies, increases in personnel, security, and Facilities Maintenance costs.

- Increases in costs are partially offset by 5.1% increase in rentable space due to prior erroneous omission of approximately 10,000 rentable square feet.

Airfield Cost Center

FY2018-19, total Airfield expenses are estimated at \$44.2 million. The total true-up credit applied to the proposed Landing Fee Rates is \$1.3 million, which is FY2016-17 surplus, credited back to the airlines' rates. Additionally, the Airfield expenses are offset by estimated FY2018-19 non-airline airfield revenues of \$5.0 million. This results in a net FY2018-19 Airline Airfield Requirement of \$38.0 million, which is \$2.4 million higher than in FY2017-18.

The Landing Fee Rate is calculated by dividing the Airline Airfield Requirement by the projected FY2018-19 landed weight of 12.09 billion pounds, an 8.3% increase over FY2017-18 budgeted landed weight.

The FY2018-19 Signatory Landing Fee Rate equals \$3.14 per thousand pounds of landed weight, a net 1.5% decrease or 5¢ per thousand pounds less than the FY2017-18 budgeted \$3.19 per thousand pounds of landed weight.

CALCULATION OF SIGNATORY LANDING FEE RATE	
Total Airfield Cost Center Expenses	\$44,243,000
Less: Non-Airline Airfield Revenues	(4,966,000)
Add: FY2016-17 True-up	(1,304,000)
Airline Airfield Requirement	\$37,973,000
Landed Weight (in 1,000 pounds)	12,085,000
Signatory Landing Fee Rate	\$3.14

Terminal Cost Center

FY2018-19, total Terminal expenses are estimated at \$79.1 million. For the Terminal Cost Center, there is no revenue credit but there is a FY2016-17 true-up credit, that reduces the Airline Terminal Requirement by approximately \$523,000.

To establish the Effective Average Terminal Rental Rate, the Terminal Requirement is further adjusted for passenger loading bridge janitorial and maintenance expenses, totaling \$1.6 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 \$77.6 million is then divided by the total Terminal leasable space of 254,793 square feet, resulting in FY2018-19 Effective Average Terminal Rental Rate of \$304.37 per square foot. This \$304.37 per square foot Effective Average Terminal Rental Rate is 6.7% – or \$19.12 per square foot – higher than the FY2017-18 rate of \$285.25 per square foot.

CALCULATION OF EFFECTIVE AVERAGE TERMINAL RENTAL RATE	
Total Terminal Cost Center Expenses	\$79,123,000
Add: Prior Years' True-Ups	(0)
Total Terminal Requirement	\$79,123,000
Less: Loading Bridge Requirement	(1,572,000)
Adjusted Terminal Requirement	\$77,551,000
Leasable Terminal Space (Square Feet)	254,793
Effective Average Terminal Rate	A \$304.37
Airline Leased Space (Square Feet)	B 159,812
Airline Terminal Requirement	A×B \$49,630,000
Add: FY2016-17 True-up	(523,000)
Net Airline Terminal Requirement	\$49,107,000

The Airline Terminal Requirement is calculated based on Airline Leased Space and the Effective Average Terminal Rental Rate, net of FY2016-17 True-up credit and totals \$49.1 million in FY2018-

19, which is \$3.5 million, or 7.5% higher than in FY2017-18. The Effective Airline Terminal Average Rental Rate is \$301.16 per square foot, which is 5.5% higher than FY2017-18.

Other Port Ordinance No. 4430 Exceptions

Landing Fee Waivers: As noted above, in updating the Rates & Charges Port Ordinance No. 4430, several categories of fees and charges were eliminated. One landing fee waiver that was discontinued covered “Angel Flight” operations. Angel Flight is an unofficial organization that performs a transportation service for people who need assistance to get to or from medical care or other services related to a medical condition, usually from distant locations without commercial airline service. Angel Flight relies on volunteer pilots choosing to accept missions, by using their personal aircraft and time to transport patients and family members to the medical facility. Previously, Angel Flight operations landing fees were waived, but pursuant to Ordinance No. 4430, such flights incur the minimum landing fee of \$49.82 (FY2017-18). As a public service, and at the request of KaiserAir and Signature Flight Support (Fixed Base Operators³ who handle the Angel Flight operations), staff is recommending that the landing fee for Angel Flight operations be waived. The FBOs will be responsible for confirming that the Angel Flight pilot’s operations are legitimate. The FBOs and staff estimate there are less than 200 such flights per year meaning the total waived/“lost” revenue would be less than \$10,000, and would not significantly impact the calculation of the Landing Fee Rates.

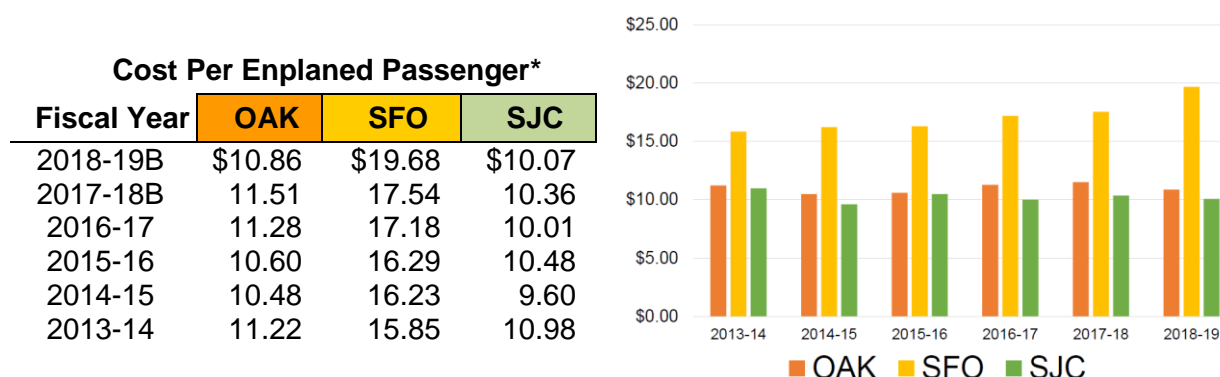
South Field Aircraft Parking Fees: Pursuant to Port Ordinance No. 4430, all aircraft operators pay aircraft storage fees for the time those aircraft are parked on the airfield or at the Terminal Complex. Fees are established in eight (8) hour intervals, and on a daily or monthly basis, and based on wingspan 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. For the past three 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. Parking Rates for itinerant airline aircraft on the South Field, and all North Field parking rates, remain applicable. As Port 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 a continuance of the abeyance of these specific aircraft parking fees. This abeyance would decrease revenue by approximately \$150,000 and increase the proposed Landing Fee Rates by about 1¢.

Impact of Proposed Rates & Charges. Cost Per Enplaned Passenger (CPE)⁴ is a commonly used metric for comparing airport terminal and airfield expenses paid by passenger airlines. With the

³ Fixed Base Operators – FBOs – conduct a wide range of aeronautical support activities including, but not limited to customer service to itinerant general and corporate aviation aircraft, fueling, maintenance and charter flights. In addition, FBOs lease hangar, aircraft apron and support space from the Port, and then sublease some of that space to corporate clients.

⁴ 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.

Rates & Charges proposed in this Agenda Report, budgeted FY2018-19 CPE for airlines serving OAK, and CPE for the prior six years at OAK, San Francisco International Airport (SFO) and Mineta San Jose International Airport (SJC) are summarized below:



*Source: SFO: Official Statement Series 2018 B/C; SJC: FY2017 Comprehensive Annual Financial Report, FY2019 Preliminary Budget data

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.

BUDGET & STAFFING

Approval of the proposed FY2018-19 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 (\$37.9 million) and Terminal (\$58.7 million) Cost Centers for FY2018-19. These revenues will be trued up against actual expenses, based on audited FY2018-19 financials.

The proposed action does not have any 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 Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

Goal: Grow Net Revenues

Goal: Improve Customer Service

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 within existing 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)

The Owner Controlled Insurance Program (OCIP) does not apply to the matters addressed by this Agenda Report as they are not capital improvement construction projects.

OPTIONS

1. Approve (i) the proposed Rates & Charges for Landing Fee Rates and Terminal Space Rental Rates for FY2018-19 to recover Airfield Cost Center and Terminal Cost Center expenses budgeted in FY2018-19; (ii) waive landing fees for Angel Flight operations subject to each Fixed Base Operator reporting and confirming such operations; and, (iii) for FY2018-19, holding in abeyance aircraft storage fees for signatory passenger and cargo airlines parking on the South Field. 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 FY2018-19 and maintain current rates, thereby overcharging Landing Fee Rates and undercharging the airlines and other tenants for Terminal Space Rental Rates, which will generate a revenue surplus in the Airfield and a revenue shortfall in the Terminal Cost Centers; (ii) continue to charge landing fees for Angel Flight operations; and, (iii) the abeyance of aircraft storage fees for signatory passenger and cargo airlines parking on the South Field, which would result in a slight decrease in the Landing Fee Rates.

RECOMMENDATION

It is recommended that the Board give first reading to adopt an ordinance amending Port Ordinance No. 4430 to:

- Establish the FY2018-19 Rates & Charges for Landing Fee Rates and Terminal Space Rental Rates as detailed on Attachment A;
- Waive landing fees for Angel Flight operations; and,
- Hold in abeyance for FY2018-19 – for signatory passenger and cargo airlines – the aircraft storage fees specified in Sections 9.a.(1). 9.a.(3), 9.b.(1) and 9.b.(2) of Ordinance No. 4430,

All subject to the Port Attorney's review and approval as to form and legality.

ATTACHMENT A

SCHEDULE OF LANDING FEE RATES AND TERMINAL SPACE RENTAL RATES

	<u>Current Charges (\$)</u>	<u>Proposed (\$) – FY2018-19</u>
<u>Landing Fees</u>		
<u>Signatory Airlines/Based Tenant Aircraft Engaged in Commercial Operations</u>		
Landing Fee	3.19	3.14
Minimum Charge Per Landing	39.86	39.28
<u>All Other Aircraft</u>		
Landing Fee	3.99	3.93
Minimum Charge Per Landing	49.82	49.10
<u>Terminal Space Rental Rates</u>		
	<u>Per Sq. Ft. Per Month</u>	<u>Per Sq. Ft. Per Month</u>
Category I: Ticketing Counter	27.981	29.510
Category II: Office Space	25.183	26.559
Category III: Baggage Claim	22.385	23.608
Category IV: Baggage Make-Up	19.587	20.657
Category V: Ticket Counter (Common Use)	13.991	14.755
Category VI: Office Space (Common Use)	12.591	13.279
Category VII: Baggage Make-Up (Common Use)	9.793	10.328
Category VIII: Concession Office/Storage Space	4.897	5.164
<u>Other Charges</u>		
Holdroom, Loading Bridge	61,651.00 per month	65,005.00 per month
Common Use – Signatory	618.00	643.00
Common Use – Non-Signatory	773.00	803.00
Secondary Use Fees:		
Aircraft with over 90 seats	459.00	474.00
Aircraft with 31 to 89 seats	230.00	237.00
Aircraft with 30 seats and fewer	115.00	119.00
Baggage Claim Area, Non-Based Airline	1.96 per deplaning passenger	1.81 per deplaning passenger
International Passenger FIS Facilities	12.00 Per Arriving Passenger	12.00 Per Arriving Passenger
Baggage Conveyor Facility Fee Terminal 1	458,577.00 (Shared by all Terminal 1 Airlines, allocated by %deplaning passengers in Terminal 1)	483,630.00 (Shared by all Terminal 1 Airlines, allocated by %deplaning passengers in Terminal 1)

	<u>Current Charges (\$)</u>	<u>Proposed (\$)</u> – FY2018-19
Baggage Conveyor Facility Fee Terminal 2	348,353.00 (Shared by all Terminal 2 Airlines, allocated by %deplaning passengers in Terminal 2)	367,385.00 (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
<u>Airline Services Providers</u>		
All Airline Services Providers (except construction contractors) pay a Concession Fee of Ten Percent (10%) of Gross Revenue Subject to a Minimum Monthly Fee:		
<ul style="list-style-type: none"> • Operating at the South Field • In-Flight Catering Services Providers • Operating at the North Field 	Monthly Minimum Fee 250.00 500.00 500.00	Monthly Minimum Fee 250.00 500.00 500.00
<ul style="list-style-type: none"> • Construction Contractors 	Fixed Annual Fee 500.00	Fixed Annual Fee 500.00