



COUNCIL AGENDA: 11-27-12  
ITEM: 23(c)

**Ad Hoc Committee on Airport Competitiveness**  
Meeting Report  
September 28, 2012

PRESENT: Mayor Reed, Councilmembers Liccardo, Pyle and Herrera

ABSENT: None.

STAFF: City Manager Debra Figone, Sr. Deputy City Attorney Kevin Fisher, Airport Director Bill Sherry, Airport Assistant Director, Kim Aguirre, Director of Airport Government Relations Jim Webb, Economic Development Policy Advisor Ru Weerakoon and Deputy City Clerk Tamara Davis.

**A. Airport Financial Projections**

Documents Presented: Draft Financial Projection Scenarios dated September 3, 2013.  
(This document is on file at the Airport.)

Airport Director Sherry discussed different scenarios to get the Airport to be self-sustaining. The Airport's definition of self-sufficiency is when ongoing revenues support Airport expenses and does not rely on one-time money. The Airport has a complicated cost structure that involves a number of assumptions. Any surplus will be split 50/50 between the Airport and airlines. This will be realized when revenue covers all PFC debt, CFC pays CFC debt, the debt service ratio required on the Airport bonds is met, and the reserves are left untapped.

Director Sherry highlighted tools to reduce the gap between revenues and expenditures: (1) The Airport could increase the PFC, however, it is capped at \$4.50 and only Congress can raise the cap. The City Council supports increasing the PFC, but cannot do so until Congress raises the current PFC ceiling; (2) The Airport could restructure its debt by extending the payment period; or (3) The City could provide the Airport a loan.

Director Sherry also provided a financial projection summary spreadsheet for the Airport over the next five fiscal years (the spreadsheet is on file at the Airport).

Director Sherry noted that if reserves are exhausted an external source of funds will be required to offset expenses, either through the City or the restructuring of bond payments.

The FY 2013 Airport budget assumes flat revenues. The airport industry has been lobbying Congress for an increase in the PFC ceiling. Currently, Congress opposes the increase because it is viewed as a tax increase. The FY 2017 Airport budget year will be

the first opportunity that the Airport will have to restructure its debt without penalties. It will take an additional \$8 million in revenue to keep the CPE at \$12 starting in FY 2018.

As a result of finishing the Airport rebuild under budget, the Airport has some unspent bond proceeds from the Terminal Airport Improvement Program (TAIP). The Airport has three options to for using its unspent bond proceeds: (1) use some of the proceeds to help keep the CPE at \$12; (2) use some of the proceeds for project development in the northeast section of the Airport; and/or (3) use some of the proceeds to help pay down bond indebtedness.

Director Sherry noted that the Airport cannot sustain any additional reductions of staff.

Action: None.

**B. The Future of Airport Fire Services**

Documents Filed: Memorandum from City Manager Debra Figone to the Mayor and City Council dated September 21, 2012 regarding Impact of Staffing for Adequate Fire and Emergency Response (SAFER) Grants on Airport Fire Services.

City Manager Debra Figone updated the Committee on the status of the Staffing for Adequate Fire and Emergency Response (SAFER) 2010 and SAFER 2011 grants. The City was awarded its first SAFER GRANT (SAFER 2010) in the amount of \$14.9 million in February 2011, which provided funding for 49 Firefighters for a two-year period that enabled the Department to re-hire firefighters, to increase staffing to improve response time performance and to maintain aircraft rescue and firefighting services at the Airport. The grant requires that the City maintain staffing levels indicated in the grant.

The City received its second SAFER award in July 2012, for \$8.6 million to fund an additional 27 firefighter positions over a two-year period. To meet the conditions of the new grant, the Fire Department must maintain field staffing levels through September 28, 2014. The City cannot lower the positions through layoff without defaulting on the grant terms.

The City was planning to revisit the outsourcing of aircraft rescue and firefighting services at the Airport in FY 2013-2014. However, as a result of the SAFER grant requirements, the decision to consider the outsourcing fire services at the Airport will need to be extended by 16 months (from July 2013 through October 2014). If the City proceeds with outsourcing before then, it will not qualify for SAFER grant funding.

Action: None

**C. West Side development Update**

Documents Filed: None

Director Sherry informed the Committee that the West Side Development will not yield significant revenues until FY 2016. During the development construction period the Airport will receive only half rent for two years.

The Airport issued a draft RFP on June 28, 2012 and received 344 respondents. The final RFP was issued August 9, 2012 and was sent to all 344 parties. The RFP was advertised in six publications. The proposals are on schedule to be submitted by November 6, 2012. The submitted proposals will be reviewed by an evaluation panel in February 2013. The results will be presented to the City Council in the spring of 2013. The panel will include the Finance Deputy Director, the City's Chief Strategist, the Airport Operations Deputy Director, a Property Manager Executive from another airport and a General Aviation/FBO Consultant. Director Sherry informed the Committee that on September 18, 2012, the City Council passed the rate resolution adjusting fuel flowage fee from \$.10 to \$.20, which will go into effect on November 1, 2012. The fee now represents the market rate.

Action: None

**D. Update on All Nippon Airways (ANA)**

Documents Filed: None

Director Sherry informed the Committee that the inaugural flight will take place on January 11, 2013, and the flight has been advertised at an introductory roundtrip price \$888; the business class roundtrip fare is \$3200. The Airport is currently working on the new lounge area and it should be complete before the inaugural flight. All Nippon Airways (ANA) has reserved the City Hall Rotunda for an event on December 5, 2012. ANA is marketing with Fox TV sports, print, radio, web, social media, outdoor billboards and robust advertising at airport. Director Sherry mentioned the possibility that the U.S. Ambassador will be on inaugural flight. This flight will restore direct service between Tokyo and San Jose and bring the Dreamliner 787 into the Bay Area.

Action: None

**E. Air Service Development Update**

Documents Filed: None

The Silicon Valley Leadership Group and the San Jose Chamber of Commerce conducted a survey of 300 Silicon Valley Businesses and found the top six desirable places to travel to domestic and international cities. The top domestic locations are New York, Chicago, Washington DC, Seattle, Dallas, and Boston. The top international locations are London, Beijing, China; Tokyo, Japan; Paris, France; Frankfurt, Germany; and Vancouver Canada.

Director Sherry mentioned that All Nippon Airlines has a hub in Narita, Japan and timed the San Jose route to connect with multiple connecting flights to other Asian cities.

Airport staff is currently at a Routes Conference in Abu Dubai working an event. Staff has meetings scheduled with twelve foreign air carriers: five European carriers, six Asian carriers, and one Canadian carrier. Staff is also meeting with three U.S. air carriers. The prime focus is looking at the European market and an additional Asian route.

If All Nippon Airways does well, it is likely that more airlines will follow in late 2013 or early 2014.

Director Sherry noted that 1.2 million passengers fly to Europe each year from SFO, and 1.8 million passengers fly to Asia. SJC's "leakage" to SFO is about 1/3 of all SFO passengers. Director Sherry is confident that SJC is fully capable of supporting additional services to the European and Asian markets.

Action: None

**F. Next Meeting Date, Time and Draft Agenda:**

- *Friday, October 19, 2012 at 1:30 p.m. in the City Manager's Conference Room (City Hall Tower – Room 1734)*

**G. Scheduled Future Committee Meetings (if needed/desired)**

- Friday, November 30 at 2:30 p.m.
- Friday, December 21 at 1:30 p.m.

**H. Adjournment**

The meeting was adjourned at 3:48 p.m.



Mayor Chuck Reed  
Airport Competitiveness Committee