



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ralph G. Tonseth

SUBJECT: SEE BELOW

DATE: June 21, 2004

Approved

Date

COUNCIL DISTRICT: Citywide

**SUBJECT: ADOPTION OF A RESOLUTION TO ESTABLISH FEES AT MINETA
SAN JOSE INTERNATIONAL AIRPORT**

RECOMMENDATION

Adoption of a resolution amending Resolution No. 59988 to establish rental fees for use of unimproved land, use of paved land, passenger and air cargo aircraft parking on the ramp, and shared use passenger air carrier facilities at the Norman Y. Mineta San José International Airport.

BACKGROUND

Pursuant to the Municipal Code, the Director of Aviation (“Director”) has the authority to execute certain short-term leases, licenses and permits for the use of property and the conduct of commercial activity at the Airport. The Municipal Code provides that fees and charges for such leases, licenses and permits executed by the Director of Aviation are to be established by resolution of the City Council. Alternatively, the Municipal Code provides that fees and charges for use of property at the Airport may be provided for in the terms of a lease or license that is approved by the City Council.

In June, 1987, the City Council adopted Resolution No. 59988, establishing various fees and charges for the use of the Airport and its facilities by lessees, permittees and licensees, pursuant to the terms of short-term leases, licenses and permits executed by the Director of Aviation. The Resolution sets forth fees for use of high load bearing and low load bearing pavement, unimproved land, and fees for overnight aircraft parking on the ramp. In addition to short-term leases and licenses executed by the Director, certain longer term leases and licenses that were approved by the City Council also provide that these particular fees will be adjusted pursuant to Resolution No. 59988. These fees and charges have not been revised since Resolution No. 59988 was approved. Because of changes in airport industry standards and market conditions, it

is necessary to adjust the fees and charges for these uses and activities on the Airport to reflect current standards and conditions.

In addition, new fees must be established for those airlines using shared use facilities, typically gate boarding areas that are not leased to any single airline tenant but are shared by one or more airlines operating at the Airport. Shared use facilities are occupied only during an operation and then vacated, making them immediately available for use by other airlines

ANALYSIS

Fees for Unimproved Land

Resolution No. 59988, Part II, Section 2 (B) establishes fees and charges for the use of unimproved land at the Airport. For short-term leases and licenses executed by the Director of Aviation, Section 2(B)(1)(iv)(2) provides that prior to the start of each fiscal year, the Director shall calculate a new annual fee for the use of unimproved land based on a reappraisal of the per square foot fair market value of the property as unimproved land. The annual fee is to be set at ten percent of the fair market value, based on the appraisal.

Calculation of the fee for the use of unimproved land at the Airport on an annual basis has proven to be impractical as a means of adjusting rental rates for leases and licenses. There is minimal unimproved land available for lease at the Airport. A reappraisal of Airport property on an annual basis is a costly and time consuming process. It is recommended that the annual fee for unimproved land for fiscal year 2004-2005 be set at \$1.49 per square foot per year. This fee is equal to the fee for unimproved land currently paid by Hewlett Packard and reflects the fee established by appraisal in 2001, the date of the most recent land appraisal. Consistent with leases for unimproved land at the Airport, it is recommended that the fee be recalculated prior to the start of each fiscal year in accordance with the increase in the Consumer Price Index ("CPI") for that fiscal year. Staff proposes to use the Consumer Price Index – All Urban Consumers, San Francisco-Oakland-San José, CA, all items, base period 1982-84=100 for the annual CPI adjustment. In the event that the CPI decreases in any fiscal year, staff recommends that the annual fee for unimproved land remain unchanged until the next fiscal year over which there is an increase in the CPI.

In the event that local real estate market conditions indicate that land values are increasing at a greater rate than the CPI, staff recommends that the Director be authorized to cause a reappraisal of the value of unimproved land at the Airport by a qualified appraiser and a new annual fee may be calculated that is ten percent of the base land value. At the present time, several Airport tenants lease unimproved land at the Airport. In accordance with the terms of these ground leases, the Airport causes a reappraisal of this leased property every 5 years. These long term leases were approved by the City Council and would therefore not be affected by this resolution.

Fees for Pavement

For short-term leases and licenses executed by the Director of Aviation and for certain long term agreements that have previously been approved by Council, Resolution No. 59988, Part II, Section 3 sets the fee for high load bearing pavement at \$2.25 per square foot per year and the fee for low load bearing pavement at \$1.35 per square foot per year. High load bearing pavement includes those portions of the Airport apron or ramp that are made available for the parking of aircraft, vehicles or ground support equipment. Low load bearing pavement includes those portions of improved land on the Airport that are permitted to be used in support of business operations other than: (a) operations conducted on the apron or ramp; or (b) off-street parking areas at the Airport. The Resolution provides that the Director shall recalculate these fees prior to the start of each fiscal year. The new fees are to be recalculated to include the costs of any pavement constructed during the prior year, and any change in the annual fee of unimproved land.

A more consistent method for establishing increases in fees for the use of pavement would be a calculation in accordance with increases in the Consumer Price Index – All Urban Consumers, San Francisco-Oakland-San José, CA, all items, base period 1982-84=100 (“CPI”). This is the formula that is set forth in Resolution No. 59988 for adjusting the fee for buildings and structures on the Airport (with the exception of passenger air carrier facilities), and is the recommended method for calculating increases in fees for unimproved land. It is recommended that the fees for the use of pavement be recalculated prior to the start of each fiscal year in accordance with increases in the CPI.

A recalculation of the fees for pavement, based on the increase in the CPI since Resolution No. 59988 was adopted, would result in fees for fiscal year 2004-05 of \$3.80 per square foot per year for high load bearing pavement and \$2.28 per square foot per year for low load bearing pavement. These rates would be adjusted prior to the start of each fiscal year when the latest CPI figures are available.

Aircraft Ramp Parking Fees

Resolution No. 59988, Part V, Section 5(b), sets the fee schedule for Remain Over Night (“RON”) aircraft parking. This Section authorizes the City to collect aircraft parking fees for aircraft parked outside of their designated areas over night. These fees are currently equal to the lower of:

1. Twenty cents (\$.20) per 1,000 pounds Maximum Gross Landing Weight (the Daily Rate);
or
2. Two dollars (\$2.00) per 1,000 pounds Maximum Gross Landing Weight (the Monthly Rate).

Resolution No. 59988 only authorizes the collection of fees for aircraft parking overnight in areas outside of those designated in the airline’s lease agreement. Air cargo aircraft typically

arrive around 7 a.m., offload cargo and park idle on the ramp until the evening hours when the aircraft are loaded and depart. The aircraft are typically parked on the ramp for approximately the same amount of time as a passenger aircraft, which is charged a RON fee for parking overnight.

When Resolution No. 59988 was approved, the airport industry standard was to collect fees based upon an aircraft's maximum gross landing weight. The industry is moving towards basing fees upon wingspan, which is a better gauge of the square footage occupied by a parked aircraft. In order to efficiently manage aircraft parking, Oakland and San Francisco International Airports have implemented graduated aircraft parking fees, which base fees upon both aircraft wingspan and the time an aircraft occupies the parking spot.

In order for the Airport to efficiently manage remote aircraft parking, the following remote aircraft parking rates have been developed:

Aircraft Wingspan	Daily Rate*	Hourly Rate
Under 124'	\$50-200	Less than 4 hours = 25% of daily rate 4-8 hours = 50% of daily rate Greater than 8 hours or remain overnight = daily rate
Over 124'	\$100-300	Less than 4 hours = 25% of daily rate 4-8 hours = 50% of daily rate Greater than 8 hours or remain overnight = daily rate

* The recommended rate for fiscal year 2004-2005 shall be set at the lowest daily rate provided within the ranges. Staff recommends that the Director have the authority to determine the need to adjust the rates prior to the start each fiscal year, taking into consideration supply and demand for aircraft parking, and the rates charged by other comparable airports.

Shared Use Facility Fees

In the effort to move toward the goal of establishing shared use facilities throughout the Airport, a shared use facility fee has been developed. The shared use fee will be charged to all commercial airlines that utilize the passenger air terminal facilities on a nonexclusive, common use basis. This fee shall be recalculated by the Director prior to the start of each fiscal year. For fiscal year 2004-2005, the shared use fee shall be set at \$2.36 per enplaned passenger in Terminal A and \$1.78 per enplaned passenger in Terminal C. Resolution No. 59988 details the need to apply a differential rate structure to each Terminal. The Director will adjust the fee at the start of each fiscal year, based on passenger activity and lease rates, at the same time that all other passenger airline terminal rates and charges are adjusted.

PUBLIC OUTREACH

A formal consultation meeting with the airlines was held on May 11, 2004. No objections to the proposed changes in fees were raised at that time.

COST IMPLICATIONS

With the implementation of the proposed fee increases on July 1, 2004, it is anticipated that additional Airport revenues of \$231,000 will be generated this fiscal year. The proposed action will provide revenue to the Airport, and thus be consistent with the general principles of the February 4, 2003 budget strategy memo approved by Council.

COORDINATION

This item has been coordinated with the City Attorney's Office.

CEQA

Resolution Nos. 67380 and 71451, PP 04-06-202.

Ralph G. Tonseth
Director of Aviation
Airport Department

RGT:so