



Memorandum

TO: HONORABLE MAYOR AND
MEMBERS OF THE AIRPORT
COMPETITIVENESS COMMITTEE

FROM: William F. Sherry, A.A.E.,
Director of Aviation

SUBJECT: Potential Revenue Sources and Revenue
Rate Adjustments for General Aviation

DATE: May 18, 2012

Approved

Date

5/12/12

RECOMMENDATIONS

Concur with staff recommendations on the following revenue sources and revenue rate adjustments:

1. Adjust the fuel flow fee to \$0.20 per gallon.
2. Do not implement a landed weight fee for general aviation.
3. Do not implement an overnight fee for itinerant general aviation operations.
4. Do not adjust T-hangar and tie-down rates at this time but continue to monitor the occupancy level and adjust the rates, as necessary, to maximize the revenue from these facilities while maintaining a high occupancy rate.

BACKGROUND

At the April 3, 2012 City Council meeting, Council directed staff to present a report to the Airport Competitiveness Committee at its May meeting on other potential revenue sources, as appropriate, that will help maintain a competitive Cost per Enplaned Passenger (CPE) ratio. In conducting its analysis, staff reviewed increasing and/or establishing the following current and potential revenue sources: 1) fuel flowage fees (current); 2) landing fees (new); 3) overnight fees (new); and 4) based aircraft T-hangar rates (current). This report contains staff's recommendations on these revenue sources.

ANALYSIS

Fuel Flowage Fees

The fuel flowage fee is established in Council Resolution 75809 and is a fee paid to the Airport on a monthly basis for aviation fuel sold or pumped into general aviation aircraft. The fuel flowage fee does not apply to commercial air carriers or cargo aircraft. The fee was established in 1985 and was set at \$0.15 per gallon or 25% of difference between purchase price and retail price, whichever is larger. The current fee is \$0.10 per gallon of aviation fuel, either pumped or sold, and has not been updated since 1992. Fuel flowage fees paid to the Airport in CY 2011 totaled \$845,436.

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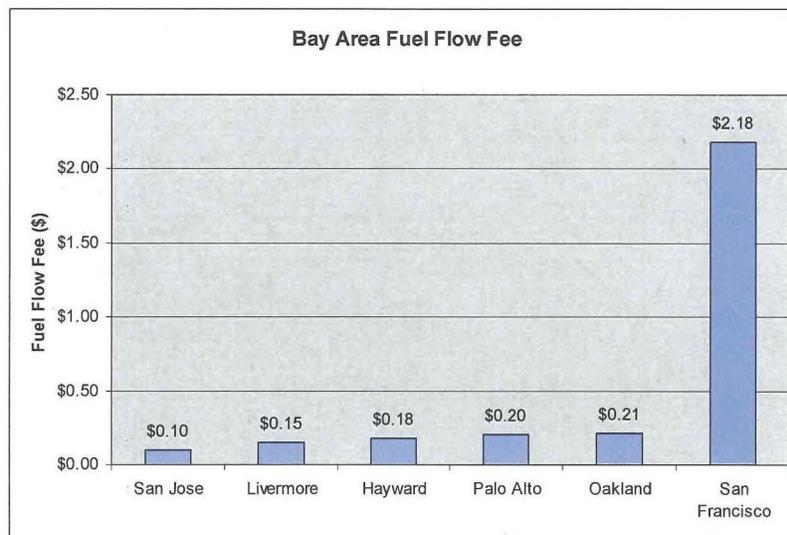
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Fuel flowage fees are common at airports across the country and vary widely depending on the location, size, aircraft served, and financial structure at each individual airport. The three criteria used to evaluate the fuel flowage fee at San Jose are as follows:

1. Consistent with the rate setting methodology used for other businesses at the Airport, the rate should be within range of the market (not the bottom or the top).
2. Airports used for comparison should sell a significant amount of jet fuel versus 100 low lead (LL) aviation gas used by piston aircraft. In 2011 the fuel flowage fee paid to the Airport was based on 8.4 million gallons of jet fuel versus 57,265 gallons of 100 LL.
3. If comparisons to airports outside of the San Francisco Bay Area are necessary, comparison airports should be in major metropolitan areas with a similar cost of living to the Bay Area. Fuel prices tend to be higher in major metropolitan areas. The assumption is that customers are paying for the ability to conveniently buy fuel in the major metro area.

The fuel flowage fees for airports in the San Francisco Bay Area that fit the criteria stated above are summarized in the chart below:



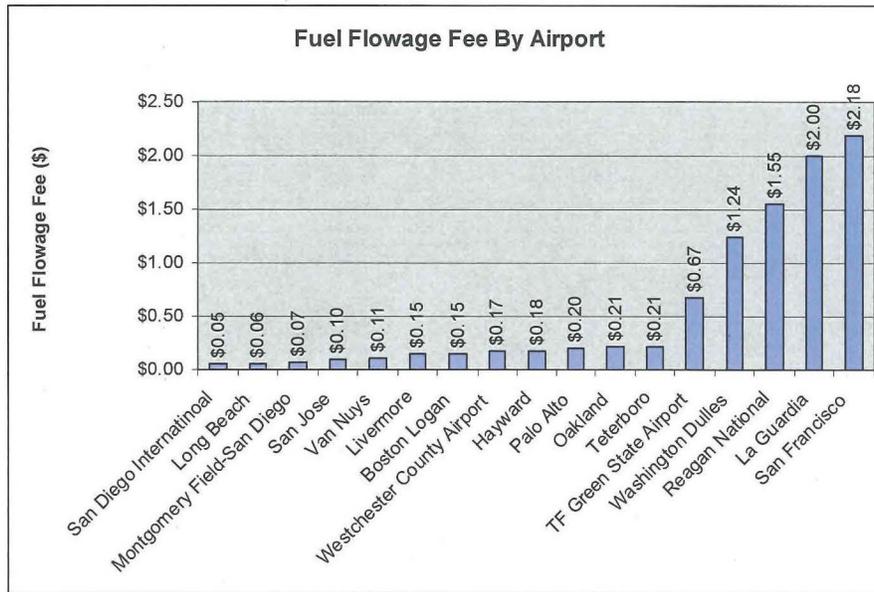
Hayward and San Francisco charge fuel flowage based on a percentage of gross sales. The fees shown above are based on the fuel price of a sample day in April 2012. In the case of Hayward, the fuel flowage fee is \$0.05 per gallon sold or 3% of gross sales, whichever is larger. The fee at San Francisco is 27% of gross sales.

A comparison of several airports outside of the San Francisco Bay Area that fit the criteria stated above is summarized in the chart below:

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Like Hayward and San Francisco, the fees shown for La Guardia, TF Green, Dulles, and Reagan are based on a sample price of jet fuel in the month of April and the percent of gross fee used at those airports.

As demonstrated by the comparison airports, the fuel flowage fee at San Jose is the lowest of the six in the Bay Area meeting the comparison criteria, and is on the low end of airports nationally. Records of jet fuel prices in 1992 are unavailable but assuming aviation fuel prices escalated with automobile fuel prices, the \$0.10 fee in 1992 represented approximately 5% of the price of aviation fuel. Today the same \$0.10 fee represents approximately 1.3% of the price of aviation fuel.

A fuel flowage fee set as a percent of gross sales, such as is done at of the comparison several airports, allows the fee to move with the price of fuel. However, San Jose has a mix of retail sales of fuel that generate fees and self-fueling where no actual sale occurs. Self-fueling allows a tenant to own their own fuel storage tank and purchase fuel for their personal use. Allowing self-fueling is a requirement of FAA grant assurances. In addition, FAA grant assurances require that the fuel flowage fee be applied in a non-discriminatory manner. Unlike San Jose, comparison airports that charge a percent of gross sales do not currently have tenants who self-fuel. However, because San Jose Airport tenants have self-fueling capability, implementing a fuel flowage fee based on a percent of gross sales is administratively infeasible.

A fuel flowage fee of \$0.20 per gallon would set the fee at the middle of fees for airports in the Bay Area and nationally as well as allowing the fee to be applied in a non-discriminatory manner. At today's aviation retail fuel prices, a \$0.20 per gallon fee would be approximately 2.7% of the price of the fuel, commensurate with Hayward.

Staff Recommendation

Adjust the fuel flow fee to \$0.20 per gallon.

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Landing Fees

Landing fees are intended to recover the cost of operating the airfield and are currently applied to commercial airlines, all air cargo companies, and charter flights but are not applied to general aviation. The landing fees are calculated based on the maximum gross take off weight of aircraft arriving at the Airport. The current landed weight fee is \$2.14 per thousand pounds. As an example, a Boeing 737-700 has a maximum gross take off weight of 153,000 pounds would have a landed weight fee of approximately \$327. Total landed weight fees at the Airport in fiscal year 2011 totaled \$13.4 million.

FAA grant assurances require that aeronautical fees be assessed on a non-discriminatory basis. As an aeronautical fee, the basis for calculating and assessing the landed weight fee for general aviation would need to be the same as applied to the commercial airlines and air cargo carriers. In addition, the landed weight fee should be applied equally among all types of general aviation aircraft. For example, the fee using the FY 2012 rate of \$2.14 per thousand pounds on a large corporate jet, such as a Gulfstream V with a maximum gross take off weight of 89,000 pounds, would be approximately \$190. The fee on a 2,450 pound Cessna 172 would be \$5.24. In calendar year 2011 there were 20,320 general aviation landings. If the landed weight fee were to be applied to such landings, collection of the fee would need to occur individually on each of these diverse operations. In the case of smaller general aviation, such as the Cessna 172, City staff would need to somehow track each operation and collect the fee. Unfortunately, there is no cost-effective way to track so many flights for such a small amount of landing fee. For example, in 2011 there were 449 arrivals of Cessna 172 aircraft that would have required staff to collect the \$5.24 from each landing. Had staff been able to track each of the 449 Cessna operations and collected the \$5.24 landing fee for each operation, a total of \$2,353 would have been collected. However, the staff cost in salaries and benefits would have significantly exceeded the revenue collected. In addition, there are many landings of other models of smaller aircraft, and it would not be cost effective for staff to monitor all general aviation arrivals to collect such small landing fees.

A quick analysis, using a sample of the general aviation landings for 2011, shows that if landed weight fees had been applied to general aviation, approximately \$1 million annually in fees could have been generated. However, to collect those fees, the Airport would have to make a significant investment in additional staffing to track and collect fees from aircraft using the City-managed general aviation facilities and would have to require that the existing tenants do the same for operations at their facilities. The cost of collecting these fees would likely exceed the benefits of the additional revenue that would be generated. For this reason, staff believes the collection of a landing fee for general aviation is not administratively feasible.

Staff Recommendation

Do not implement a landed weight fee for general aviation.

Overnight Fees

Overnight fees are costs that are applied to itinerant aircraft that park overnight for one or more days. Under the minimum standards, fixed base operators and air charter operators are the only commercial enterprises allowed to accept itinerant general aviation on a commercial basis. Provision of overnight aircraft parking to itinerant general aviation is one of the services currently provided by these operators at the Airport pursuant to the terms of their leases, and these operators pay ground rent to the City in consideration for this privilege. The imposition of an additional overnight fee for itinerant general aviation operations on the operator's leasehold would therefore be inconsistent with the terms of the

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existing leases at the Airport. Airport-operated general aviation facilities do not accept itinerant general aviation because, like assessing landing fees, the significant staffing costs associated with such an operation would greatly exceed the revenue collected. Those staffing costs would be even greater if overnight fees had to be assessed and collected. Accordingly, it would not be cost effective for the Airport to levy an overnight fee.

Staff Recommendation

Do not implement an overnight fee for itinerant general aviation operations.

Why Landing and Overnight Fees Should Not Be Applied to General Aviation

FAA rate setting requirements prohibit airports from profiting on the airfield. Accordingly, the airports are only allowed to set fees on a cost-recovery basis. When it comes to commercial operations (i.e., airlines and cargo) that operate on relatively set and stable schedules, recovering the costs from their operations is best done through landed weights – it is also the fairest and most commonly accepted methodology. Conversely, since general aviation operates on-demand and without set schedules, it is best to charge that segment of the industry through fuel flowage fees and ground rental. Since staff is recommending a \$.20 fuel flowage fee and currently charges a 10% capitalization rate on the fair market value of the land, it is not reasonable to also charge general aviation tenants landing and overnight fees. That is to say that the fuel flowage fees and ground rental revenue offsets the need for other fees for general aviation.

Based Aircraft T-hangar Rates

The Airport-operated general aviation facility located at the south west corner of the field has 46 hangars and 80 open tie downs and generated \$233,768 in rental revenue in fiscal year 2010-11. The hangars are currently 93% occupied and the tie downs are 26% occupied. Council Resolution 75809 sets forth the rates for rental of hangars and open tie downs for general aviation aircraft in the Airport-operated facility. On May 24, 2011 the Council adopted new rate resolution 75809 to increase the GA rates, which went into effect on July 1, 2011. The new resolution increased the hangar rates from \$381 a month to \$514 a month. The increase was based on a comparison of the existing cost at SJC and the average of similar hangars and tie downs at other local airports. Staff is monitoring the occupancy of these facilities so that the rates generate the maximum revenue while still maintaining high occupancy. The rate resolution allows the Airport Director to adjust the rates annually; however, based on the occupancy level, the current rate appears to be what the local market will support.

Staff Recommendation

Do not adjust the T-hangar rate at this time, but staff should continue to monitor occupancy of the general aviation hangar and tie down facilities and adjust the rates as necessary to maximize the revenue while maintaining a high occupancy rate.

/s/

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Director of Aviation

For questions please contact Dave Maas, Deputy Director of Planning and Development,
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