



Department of Aviation

Airport Rates & Charges Study Results and Findings

Briefing to the Transportation and Environment
Committee
October 22, 2007





Objectives of Briefing

1. Discuss the financial needs and opportunities of Love Field and the Dallas Airport System.
2. Discuss the findings of the Rates & Charges Study.
3. Discuss next steps: recommendations, policy and implementation.



The Changing Financial Circumstances of Love Field (...continued)

■ Financial Needs

- Wright Amendment Full Repeal 2014
 - New Capital Investment Need estimated at \$384 mil
 - Love Field Modernization Program
 - People Mover
 - Capital Improvement Program
- PFC Application # 1 Underway
 - \$39.2 mil equity capital, pending FAA authorization
- Debt Issue Potentially above \$200 Mil
 - Strategy of future PFC applications to *partially* fund debt service
 - Not all improvements are eligible for PFC funding – will require additional revenue
- Current Revenue Structure Largely Fixed
 - Sufficient only for current O&M, debt service costs



The Changing Financial Circumstances of Love Field (...continued)

- Financial Opportunities
 - Expanded Role for Love Field
 - Unrestricted domestic service (2014)
 - Market increased from just 14 cities under Wright Amendment
 - Capacity Limited to 20 Gates (2006)
 - Effect on Demand
 - Passengers to increase 40% to 12 million annually (after full repeal)
 - Revenue growth opportunities
 - Concession revenues
 - Parking, Ground Transportation revenues
 - Effect of Enhanced Revenue Potential
 - Favorable Bond Rating to reduce cost of capital
 - Ability to build equity capital, reduce dependency on debt
 - Cushion against financial effects of market disruptions and extraordinary adverse events



Rates & Charges Study

- Contract awarded to Unison-Maximus June 13, 2007

Study Tasks	Status	Date
1. Airline Rate Analysis	Complete	Today
2. Benchmarking – comparable airports	Complete	Today
3. Review Leases, Contracts	Complete	Dec 10
4. Reserve Fund Recommendations	Complete	Dec 10
5. Financial Analysis – LFMP, PM	Start Pending	TBD
6. PFC Analysis and Initial Application	In Process	(Oct. 8)
7. Additional Services: A. Interim Concession Plan Recommendations B. Assist with Airline Lease Negotiation	In Process	



Task 1 – Airline Rate Analysis

- Objectives:
 - Document current Airport cost structure
 - Explore alternative rate-making approaches for calculating airline rates & charges
 - Recommend a cost-based approach for calculating airline rates
 - Provide report suitable to support rate negotiations with the airlines

Task 1 – Airline Rate Analysis (...continued)

- U.S. DOT Rates & Charges Policy for Airports:
 - 4 Basic Principles Governing how Airports set Rates & Charges:
 - “Fair and Reasonable” Standard
 - **Requires “reasonable, consistent, transparent” methods of establishing rate base and allocating costs**
 - **Airfield revenues may not exceed airfield costs**
 - Rate base can include debt service, debt service coverage, and funding of required services
 - Airfield assets must be valued at historical cost, not fair market value
 - Land costs can be based on amortization or imputed interest
 - Rate Base can include only costs of assets *in service* (pre-funding prohibited)
 - Rate Base can include costs of reliever airports
 - FAA grant and PFC-funded project costs may not be included in rate base

Task 1 – Airline Rate Analysis (...continued)

(U.S. DOT Policy, continued)

- Expend Revenues for Eligible Purposes
 - FAA Revenue Policy defines approved/prohibited uses
- Not Unjustly Discriminatory
 - Availability of space, facilities and services must be on the same basis, terms and conditions among the same class of tenants and users
 - We can differentiate between airlines that *are* signatory to an agreement, and airlines that *are not* (and it is common to do so).
- Financially Self-Sustaining Standard
 - Rates and charges must be sufficient to enable the airport to be self-sustaining, considering its unique circumstances
 - Accumulation of surplus *aeronautical* revenues prohibited
 - Landing fee and fuel flowage revenue
 - No prohibition against accumulation of surplus *non-aeronautical* revenues
 - Concession, parking, rental car revenue



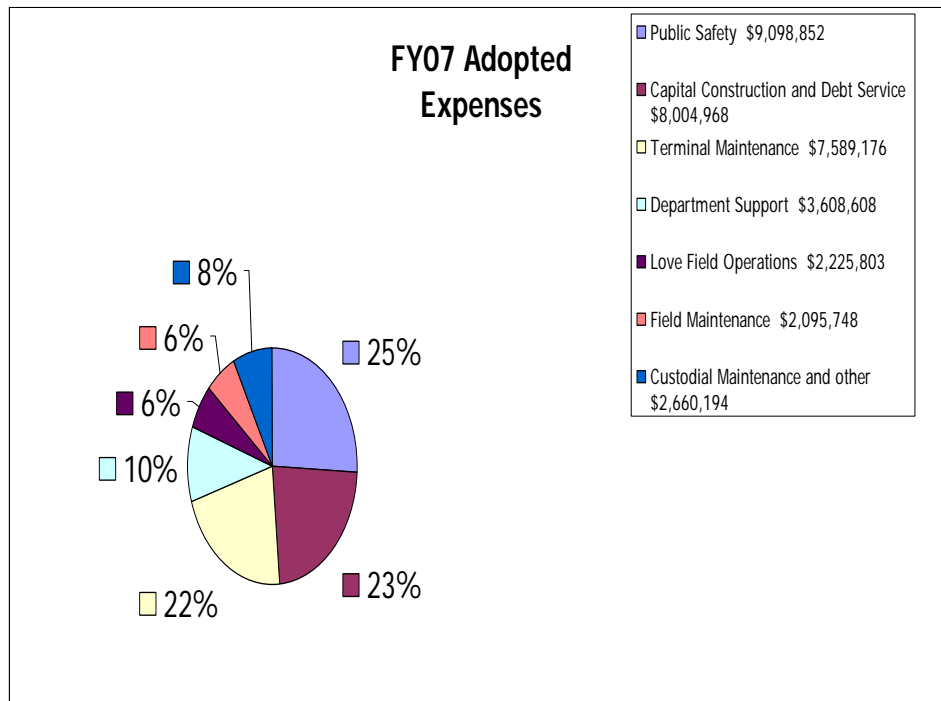
Task 1 – Airline Rate Analysis (continued...)

- Current Rate-Making Approach
 - Landing Fee:
 - Set by ordinance
 - Based on general airport revenue need
 - Terminal Rental Rate
 - Fixed in long-term lease
 - Negotiated at inception of lease
 - Historical Results
 - Airport System Revenues have generally exceeded Airport System Expenses

Task 1 – Airline Rate Analysis

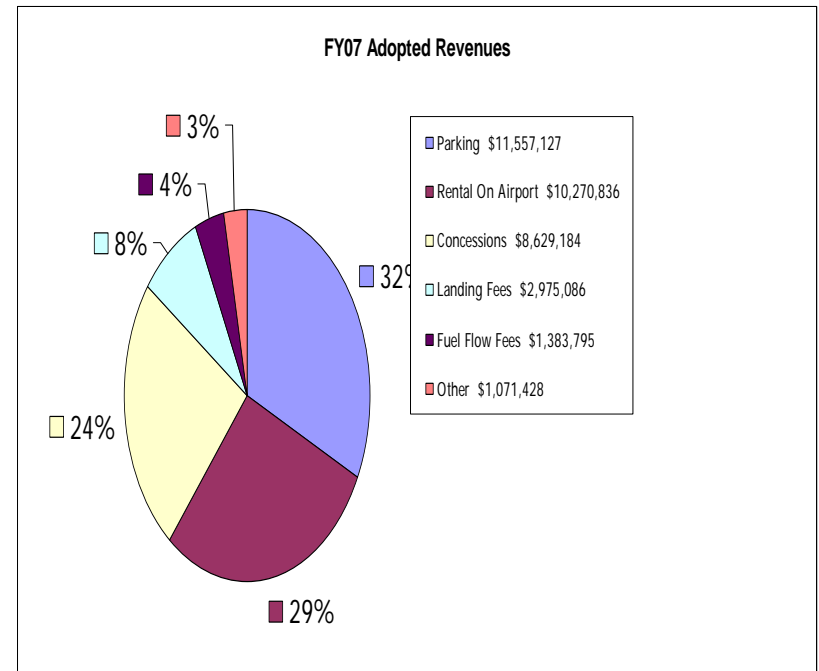
AVI FY07 Expenses and Revenues

Budgeted Expenses



Total Expenses:
\$35,283,350

Budgeted Revenues



Total Revenues:
\$35,887,456

Task 1 – Airline Rate Analysis (...continued)

- Proposed Rate-Making Approach
- Love Field Cost Structure
 - Identified all costs eligible for inclusion in rate base
 - Budgeted Operation & Maintenance Expenses
 - Budgeted Equipment & capital outlay
 - Recovery of capital investment
 - Funding or replenishment of reserves
 - Defined Cost Centers for allocation of costs listed above (see Exhibit A, next page)
 - Airfield Cost Center
 - Land, pavement, electrical, drainage, fencing, noise monitoring equipment
 - Terminal Cost Center
 - Main lobby, ticketing, baggage claim, concourses & gates
 - Terminal curbsides, canopies, landscaping
 - Terminal Roadways Cost Center
 - Terminal entrance/exit loop roadway
 - Parking and Ground Transportation Cost Center
 - Garages A & B, Ground Transportation staging and pick-up areas
 - Other Buildings and Areas Cost Center
 - All other land and buildings on the airport
 - Executive Airport Cost Center
 - Downtown Heliport Cost Center
 - Direct and Indirect Costs are then reallocated from budget cost centers to determine the total cost of each of the seven cost centers defined above.
 - Importance of allocating costs (see “Fair & Reasonable” standard, page 7):
 - Airfield costs must be properly allocated in order to ensure revenues do not exceed costs

Exhibit A

PRO FORMA ALLOCATION OF PROJECTED FY 2008 OPERATING EXPENSES TO COST CENTERS

City of Dallas Department of Aviation

	Total	Airfield	Terminal Building	Parking & GT Areas	Terminal Roads	Other Bldgs & Areas	Other Facilities		Subtotal - Direct Exp	Admin Overhead
							Executive	Heliport		
Administration	\$ 5,004,524			5%						100.0%
ARFF *	\$ 4,585,091	82%					18%		100%	
Operations	\$ 2,411,630	80%	12%	2%	3%	3%			100%	
Field Maintenance	\$ 1,863,111	69%		3%	8%	17%	3%		100%	
Security *	\$ 5,803,420	12%	50%	5%	30%	3%			100%	
Custodial	\$ 1,442,576		71%	10%	3%	10%		6%	100%	
Terminal Maintenance	\$ 7,507,128	11%	69%	15%	1%	2%	2%		100%	
Parking	\$ 638,761			100%					100%	
Executive Airport	\$ 809,314						95%	5%	100%	
Heliport	\$ 160,129						5%	95%	100%	
Other/ Contractual Services	446,788								-	100.0% 446,788
DEPARTMENT TOTAL	\$ 30,672,471	\$ 8,502,135	\$ 9,395,252	\$ 2,586,112	\$ 2,080,772	\$ 857,580	\$ 1,802,891	\$ 279,143	\$ 25,503,886	\$ 5,168,585
Percent of Direct Expenses		33.3%	36.8%	10.1%	8.2%	3.4%	7.1%	1.1%	100.0%	
Percent of Direct Revenues		26.8%	21.0%	39.8%		11.0%	1.4%		100.0%	
Allocation of Administrative Overhead (a)	-	1,553,408	1,493,577	1,291,354	210,843	371,431	219,687	28,285	5,168,585	(5,168,585)
DEPARTMENT TOTAL	\$ 30,672,471	\$ 10,055,543	\$ 10,888,829	\$ 3,877,465	\$ 2,291,615	\$ 1,229,011	\$ 2,022,578	\$ 307,428	\$ 30,672,471	\$ -

Note. Included in the budget as "Public Safety".



Task 1 – Airline Rate Analysis (...continued)

■ Proposed Rate-Making Method

■ Landing Fee:

- Currently set by ordinance
 - Can be adjusted unilaterally by City Council
 - Any adjustments require ordinance amendment
- Common alternative method: based on formula to recover costs associated with infrastructure and facilities which support aircraft operation (airfield cost center)
 - Cost of land, pavement, electrical, noise monitoring, Aircraft Rescue Fire Fighting, maintenance
 - Industry standard “airfield cost center residual” rate formula
 - General Aviation share of costs recovered through **fuel flowage fees**
 - Balance of costs (the residual) recovered in the **landing fee** paid by commercial aircraft



Task 1 – Airline Rate Analysis (continued...)

■ Calculating the Landing Fee

- Goal: Cost Recovery (generating sufficient revenue to match budgeted cost)
- Revenue (the objective) = Landed Weight X Landing Fee
 - Revenue requirement determined by allocating cost to Airfield Cost Center
 - Landed Weight is projected annually
 - Landing Fee = Revenue requirement / Projected Landed Weight
- Focus on Variables of Budgeted Revenue and Landed Weights
 - Both vary year-to-year
 - Landing Fee calculation must be adjusted as the variables change in order to achieve **goal of cost recovery** on consistent basis

Task 1 – Airline Rate Analysis (...continued)



- Recommended Methodologies, Actions
 - Landing Fee
 - Recommend “Airfield Cost Center Residual”
 - Formula adjusts Landing Fee on annual basis as part of the budget process, **to assure cost recovery**
 - Annual budgeted cost allocated to “Airfield Cost Center” is adjusted by crediting projected Fuel Flowage Fees. Remainder of cost is divided by projected annual landed weights to determine Landing Fee for that FY
 - Implemented annually by amending ordinance



Task 1 – Airline Rate Analysis (...continued)

- Proposed Rate-Making Method:
 - Terminal Rental Rate
 - Currently fixed in long-term leases
 - LFMP presents opportunity to negotiate
 - Common alternative method based on allocating total costs associated with providing the terminal facilities and services on a “per sq ft basis” (terminal cost center: terminal improvements, maintenance, operation, security, utilities)
 - “Compensatory” method
 - All costs allocated to all *usable space* on sq ft basis (includes rentable space, public circulation, restroom space)
 - Consultant recommendation from evaluation of alternatives based on need to engage in negotiations



Task 1 – Airline Rate Analysis (continued...)

- Recommended Methodologies, Actions
 - Terminal Rental Rate
 - Recommend “Compensatory Method”
 - Reasonable approach to negotiating new rates **under existing lease agreements** to achieve cost recovery.
 - Allows Airport to retain and accumulate concession revenues to reinvest in the airport system.



Task 2 – Benchmarking Analysis

- Helps to identify opportunities to enhance revenue potential to support our large capital needs. Also, provides a means of monitoring revenue performance on an on-going basis.
- Surveyed 8 comparable Airports: 2 Large Hubs – DFW Int'l and Chicago Midway; 6 Medium Hubs – San Antonio, Kansas City, Houston Hobby, Nashville, Sacramento, Ontario (CA).
 - All airports (except DFW) are Southwest Airlines dominated
 - Enplaned passengers range from 3.5 million (ONT) to 5.6 million (MCI) for the Medium Hubs, 9 million for Midway and 30 million for DFW
 - All are strong Origination & Destination airports
 - **All have similar rate-making methodologies (either compensatory or residual)**
 - DFW not considered similar, but included for local reference
- Compared Dallas Love Field to the six Medium Hub Benchmark Airports, individually and by Benchmark Average, on 64 parameters
 - To be used to support other study recommendations
- Selected parameters of interest to this briefing follow.



Task 2 – Benchmarking Analysis

General Observations

- Detailed benchmarking Analysis will be used to support analyses and recommendations of the various other tasks. Highlights are noted below.
- Love Field Revenue Strengths:
 - Food & Beverage net revenues higher than benchmark average
 - Advertising net revenues more than *5 times* benchmark average
- Opportunities to Enhance Revenues:
 - Low airline costs reflect management philosophy of low cost operation and the absence of debt-financed improvements during the restricted period of Wright Amendment
 - Below benchmark average Public Parking Rates and net revenue, offers opportunity to address garage capacity issues through pricing policies
 - Below benchmark average Rental Car net revenues reflect historical short-haul nature of the market. Repeal of Wright Amendment could modify this result in the future.
 - Below benchmark average Ground Transportation net revenues reflects rate structure which was revised in Dec 2006. FY 2008 revenues will be increased.

Task 2 - Benchmarking Analysis

Summary of Select Parameters

(Note: This page compares *existing* rates and revenues for DAL, against the survey average, and does not include any recommendations)

	DAL		Survey Average	
Landing fee rate	\$	0.55	\$	2.83
Average terminal rental rate	\$	9.14	\$	88.81
Airline cost per enplaned passenger	\$	1.54	\$	6.44
Public parking rates				
Daily rate--close in structure	\$	10.00	\$	19.00
Daily rate--long term structure/surface	\$	7.00	\$	8.00
Fuel flowge fee rates	\$	0.07	\$	0.06
Net revenue per e.p.				
Public automobile parking	\$	3.12	\$	5.06
Rental cars	\$	1.34	\$	1.83
Ground transportation	\$	0.03	\$	0.10
Food and beverage	\$	0.45	\$	0.41
News and gifts	\$	0.24	\$	0.32
Advertising	\$	0.43	\$	0.08



Recommendations

- Landing Fee

- Current: Fixed Landing Fee set in ordinance.
- Proposed: Support a recommendation to implement an “Airfield Cost Center Residual” landing fee formula, to ensure cost recovery through the annual budget process.
 - New landing fee to be implemented annually by ordinance amendment, subject to annual City Council approval.

- Terminal Rental Rates

- Current: Rental Rates set in Long-Term Lease
- Proposed: Support a recommendation to implement a “Compensatory” method of determining terminal rental rates to ensure cost recovery through the annual budget process.
 - To be implemented through the renegotiation of existing terminal space leases with the airlines, and subject to City Council approval.



Next Steps

- Conduct negotiations with airlines on **landing fee** to achieve full recovery of Airfield Cost Center allocated costs, based on FY 2007-2008 budgeted costs.
- Conduct negotiations with airlines on **revisions to terminal lease rental rates** to achieve full recovery of Terminal Cost Center allocated costs, based on FY 2007-2008 budgeted costs.
- Propose **ordinance amendments** for landing fee, and lease amendments for terminal rental rates, to City Council for approval. Estimated time frame of **January, 2008**.
- Brief committee on **Task 3**, "Review of Leases and Contracts", and **Task 4**, "Reserve Fund Recommendations" on **Dec 10**.