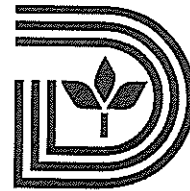


Memorandum



CITY OF DALLAS

DATE August 1, 2008

TO Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwain R. Caraway, (Deputy Mayor Pro Tem), Sheffie Kadane, Linda Koop, Mitchell Rasansky, Steve Salazar

SUBJECT Airport Rates and Charges Study Recommendations

Attached are the briefing materials on the Department of Aviation Airport Rates and Charges Study Recommendations to be presented to the Economic Development Committee on Monday, August 4, 2008.

Please let me know if you should need additional information.

A handwritten signature in black ink, appearing to read 'Ramon F. Miguez'.

Ramon F. Miguez, P.E.
Assistant City Manager

Attachment

The Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig D. Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
David O. Brown, Interim Assistant City Manager
Jill A. Jordan, P. E., Assistant City Manager
David K. Cook, Chief Financial Officer

Airport Rates & Charges Study Recommendations

Presented to the City Council
Economic Development
Committee

Department of Aviation
August 4, 2008



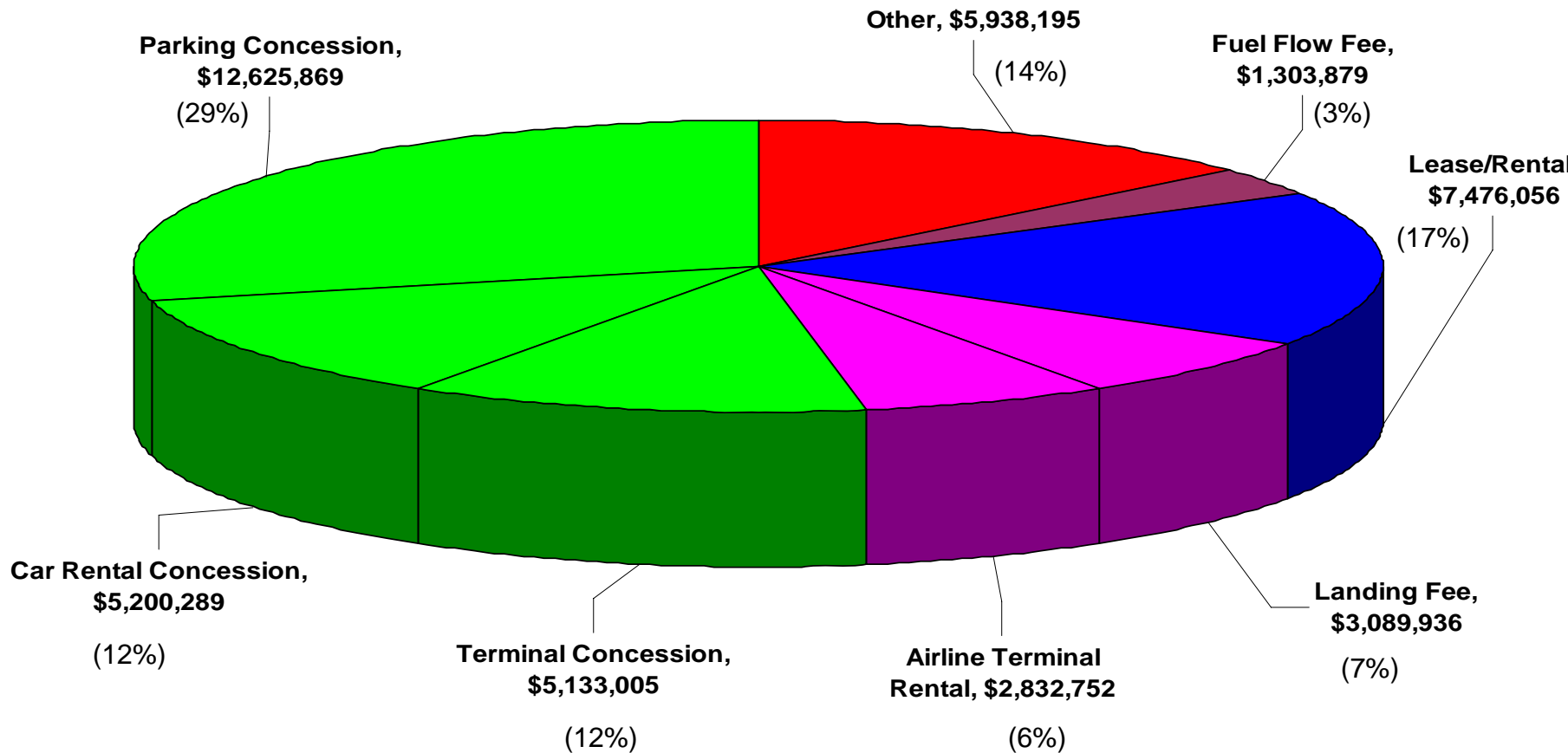
Purpose

- Ensure revenues are adequate to cover costs.
- Ensure revenues can adjust with costs as they change.
- Maintain compliance with FAA revenue policy.
- Establish Reserve Funds.

FY 06-07 Revenue by Source

About 60% driven by passenger traffic (Concessions)

FY 2007 Revenue



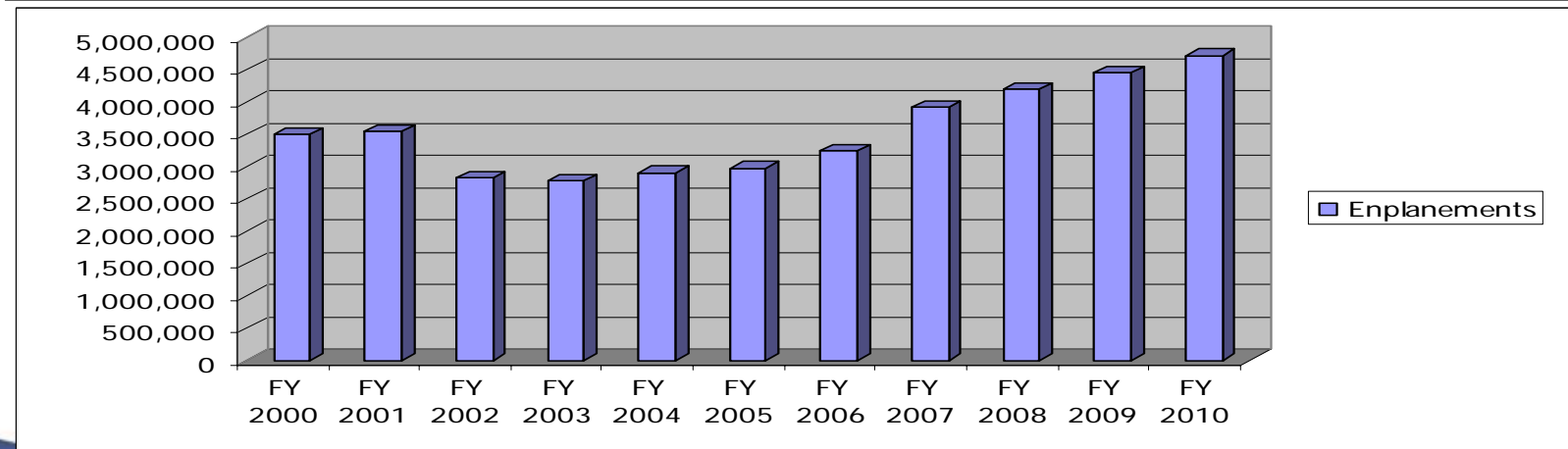
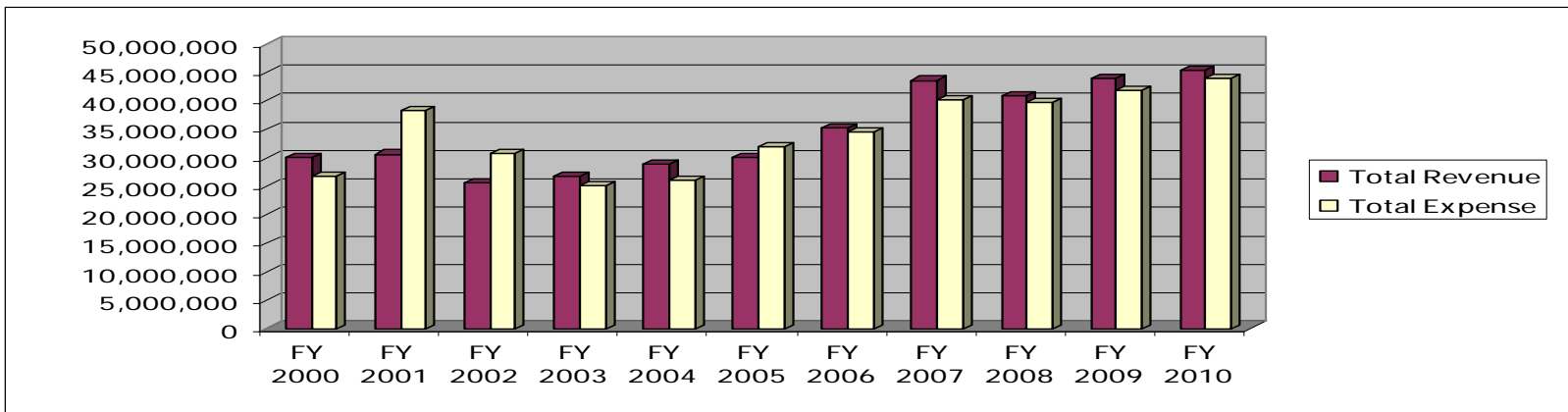
Total Concessions: \$22.959M

Total Airline Revenue: \$5.923M

Total Revenue: \$43.560M

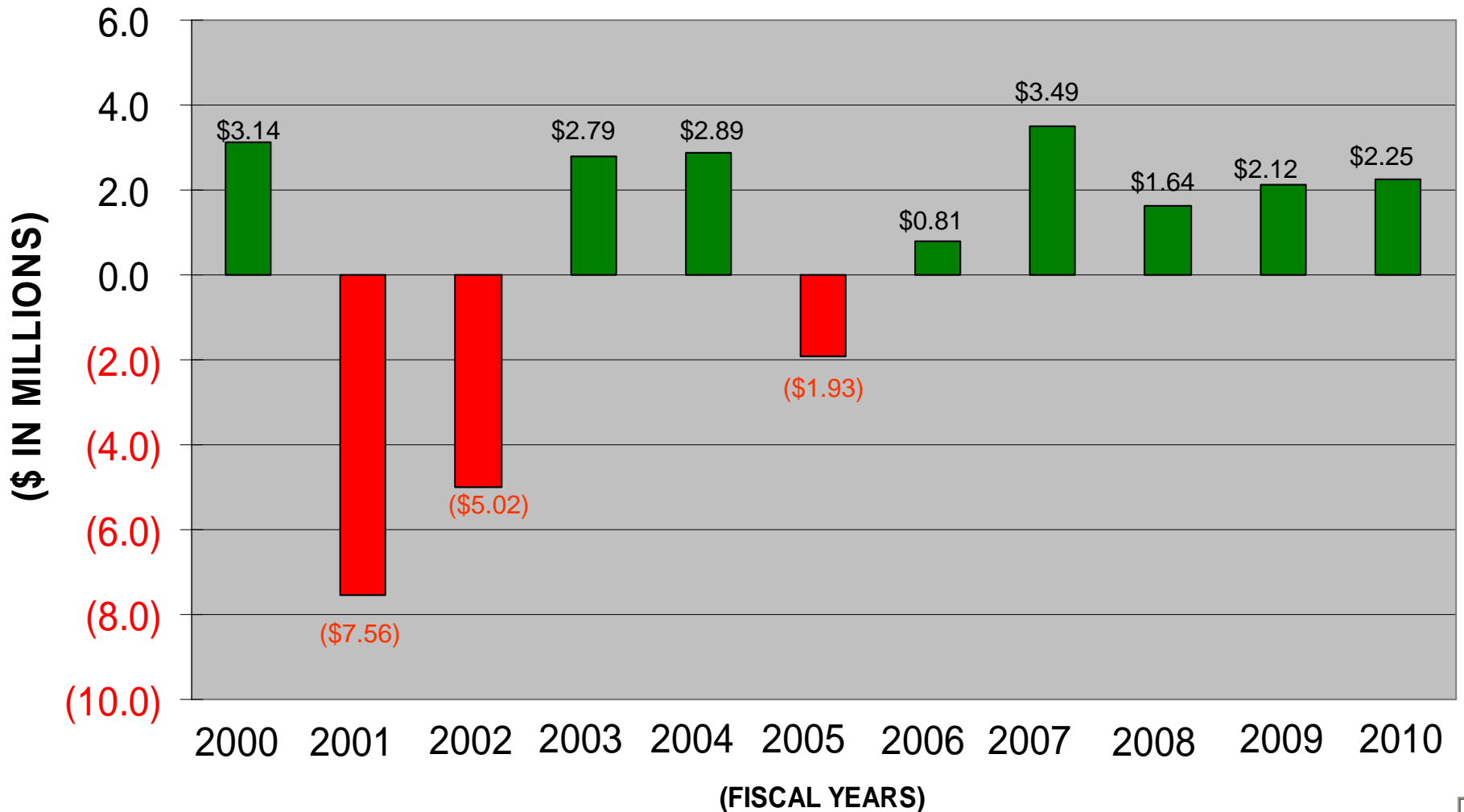
Revenues rise & fall with Passenger Traffic, but Expenses can only adjust so much...

- Revenues, Expenses and Passenger enplanements



Fluctuations in passenger traffic results in deficits in difficult times, modest gains in good times

[Revenues – Expenses = **Net Revenue**/(**Deficit**)]



Remedy: The Cost Recovery Model

Airline Rates & Charges:

The City Council approved a rate model for airlines on June 25.

Included in the Term Sheet for the Love Field Modernization Program.

Adjusts with changes in airport revenues and costs to ensure **total revenues** are sufficient to cover **total costs** (see model Appendix pg. 32).

Total Annual Costs include:

Operating and maintenance

Debt service on LFMP bonds

Amortization of non-LFMP capital improvements funded by AVI

Replenishment of reserves (outlined on pages 20 - 24)

How it Works:

AVI Total Annual Cost (allocated to airline cost centers)

- Non-Airline Revenues (from those cost centers)

Airline Revenue Requirement (from landing fees & rentals)

Remedy: The Cost Recovery Model

Airline Rates & Charges:

Better balance of revenue sources (see pro forma, pages 27 - 29).

Matches revenue to expenses to reduce vulnerability to downturns.

Projected to generate approx \$10 million net revenues annually for Capital Fund.

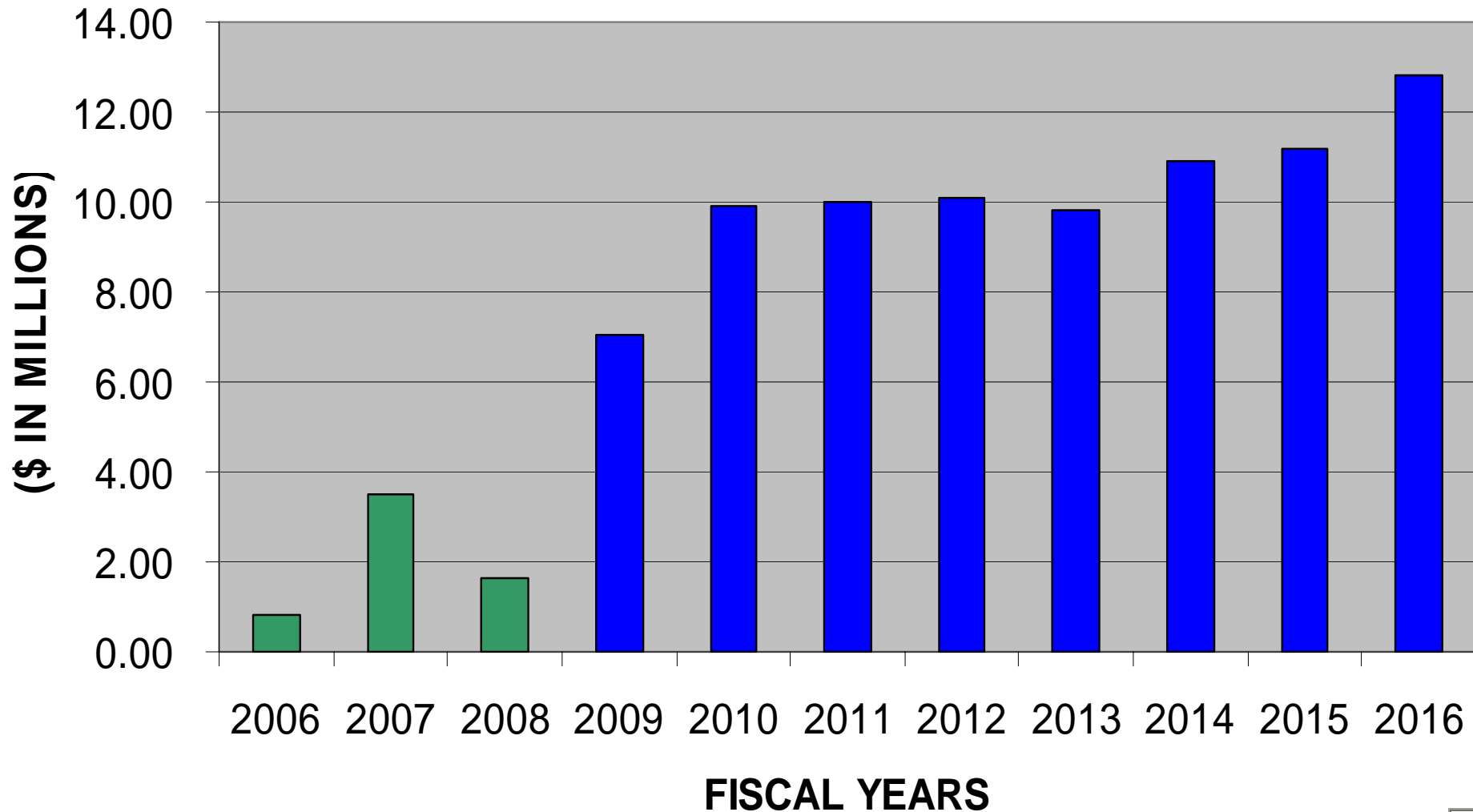
Caps the Capital Fund balance at \$30 million, beginning FY 2015.

Model will be implemented with the phased opening of new space during development of the Love Field Modernization Program (est. 2012).

Interim rate increases effective 1/1/09 with annual incremental increases ramping up to model implementation.

The Cost Recovery Model

Projected Results (Rev – Exp = Net Revenue)



Non-Airline Revenues

- The Study evaluated the following revenue sources. Recommendations are outlined on the next 10 pages.
 - Fuel Flowage Fee
 - Lease Rental Rates
 - Parking Rates
 - Car Rental Concessions
 - Ground Transportation Fees
 - Terminal Concessions

Rates & Charges Study Recommendations



• Fuel Flowage Fees

- Represents the General Aviation contribution to costs allocated to the Airfield Cost Center (in place of a landing fee).

- Study conclusion:
 - Fuel flow fee *could* increase from current rate of \$.07 to \$.08.
 - See Benchmark data, Appendix page 34
 - Increase the annual fuel vendor permit fee from \$100 to \$1,000.

- **Recommendations:**
 - Other considerations:
 - Fee increased 75% in 2003, from \$.04 to \$.07.
 - Current high cost of fuel contributes to 19% drop CYTD in GA operations.
 - Therefore, defer Fuel Flowage Fee increase until next rate evaluation.
 - **Increase annual vendor permit fee to \$1,000 each.**

Rates & Charges Study Recommendations

- **Lease Rental Rates**
- **Study Recommendation:**
 - Base lease rates on Fair Market Appraisal
- **Appraisal of Leaseable Property (Non-Terminal leases)**
 - Airport Business Solutions, Inc., Tampa, FL
 - Dated May 23, 2008
 - Prepared in accordance with *Uniform Standards of Professional Appraisal Practice (USPAP)*
- **Purpose of Appraisal**
 - Estimate Fair Market Value to update Prevailing Lease Rates

Rates & Charges Study Recommendations

- **Lease Rental Rates (Cont'd)**

- **Appraiser Considerations**
 - Local demographic data
 - General airport information
 - Airport environment
 - Site and improvement descriptions
 - Review of existing leases
 - Rent analysis

- **Appraisal Methodology**
 - Fair Market Value
 - Income Capitalization Approach
 - 10% overall capitalization rate
 - Lease Rates
 - Market Comparison Approach

Rates & Charges Study Recommendations



- **Lease Rental Rates (Non-Terminal)**

- May 23, 2008 **Fair Market Appraisal results (Love Field):**
 - See Comparable Airports, Appendix Page 35.

	<u>Unimproved Land</u>	<u>Improved Land</u>	<u>FBO/Storage Hangars</u>	<u>Maintenance Hangars</u>	<u>Office Space</u>
Current:	\$0.32	\$0.46	\$2.24	\$2.24	\$5.08
Proposed:	\$0.40	\$0.65	\$3.50	\$3.75	\$8.00

Rates & Charges Study Recommendations



- **Lease Rental Rates (cont'd)**

- May 23, 2008 **Fair Market Appraisal results** ([Executive Airport](#)):
 - See Comparable Airports, Appendix Page 36.

	Unimproved Land	Improved Land	FBO/Storage Hangars	Maintenance Hangars	Office Space
Current:	\$0.13	\$0.17	\$2.00	\$2.00	\$2.30
Appraised:	\$0.20	\$0.30	\$2.50	\$2.50	\$2.50

Special consideration for Executive Airport:

The City of Dallas has lead several initiatives since completion of the Airport Master Plan Update in 2001 to develop the airport facilities, infrastructure and activity levels. These efforts have resulted in over \$20 million in public and private improvements which have resulted in renewed growth in activity and service to the local and traveling public. Considering the recent success and future potential for continued development, staff recommends postponing any increase in rental rates for one year.

Rates & Charges Study Recommendations



- **Lease Rental Rates (cont'd)**
- Recommendations:
 - **Love Field**
 - Adopt Proposed Rates as Updated Prevailing Lease Rates.
 - **Executive Airport**
 - Postpone rate adjustment and re-evaluate in one year.
- Effect of Implementing New Prevailing Rates:
 - Existing leases – gradual, in accordance with lease language.
 - New leases – immediate.

Rates & Charges Study Recommendations



■ **Parking Rates**

- Current daily rates: Garage A - \$10; Garage B - \$7.
- Benchmark rates are \$19 “short term” and \$8 “long term”. (See Appendix page 33)
- Study recommends:
 - Gradual increase over several years toward “market”.
 - Increase spread between Garages A & B to shift more use to B.
- **Recommendations:**
 - Passenger traffic projected to increase 50%, adding pressure on garage capacity. Rate increase will balance demand between the 2 garages and could defer the need for future expansion.
 - **New daily rates:**
 - **Garage A - \$12;**
 - **Garage B - \$8.**

Rates & Charges Study Recommendations



■ **Car Rental Concessions**

- Study found that the **business terms of the current** Car Rental Concession agreements **are reasonable, appropriate and reflect current airport industry standards and practices.** Re-bidding the concessions is currently underway.

■ **Ground Transportation Fees**

- New Ground Transportation Fee Ordinance implemented Dec 2006.
- Revenue per passenger is only 30% of Benchmark average (Append. page 33).
- **Recommendation:**
 - **Increase** Taxi trip fee from \$1.00 to \$2.00.
 - **Replace current \$2.00 trip fees** for off-airport car rental and parking operators **with agreements charging 8% of gross** revenue derived from their airport business.
 - **Maintain unchanged** the Courtesy Vehicles \$200 annual fee, \$10 vehicle decal and \$.75 - \$1.25 trip fee.

Rates & Charges Study Recommendations



■ **Terminal Concessions**

■ Food & Beverage *and* News & Retail:

■ Consultant observations –

- Rental structure is consistent with industry practices.
- Gross revenues and rental revenues paid to City have increased with recent space increases and improvements.
- Revenues are below benchmark due to lack of available new space.

■ **Staff Recommendations:**

- Space deficiencies (and therefore, revenue potential) to be remedied through LFMP development, which will triple the available concession space.

Rates & Charges Study Recommendations



▪ **Terminal Concessions (Cont'd)**

- Advertising:
 - Rental structure is consistent with industry practices.
 - Revenues paid to City far exceed Benchmark average.
 - Benchmark average - \$.06 per passenger
 - Love Field - \$.21 per passenger (*3.5 times the benchmark!*)
 - Effective rents paid – 74% at Love Field, 57% Benchmark avg.
 - **Recommendations:**
 - Advertising Concession expected to **continue outstanding results.**

Rates & Charges Study Recommendations



▪ **Reserve Funds**

- **General Purposes:**
 - Ensure the Dallas Airport System ability to meet its obligations in an environment in which its sources of revenue can be disrupted by safety, security and economic impacts.
 - Increase balance sheet liquidity to enhanced bond ratings.
 - Represent airport “best practices”.
 - Are provided for in the Five Party Agreement.
- **Recommendations Follow...**

Rates & Charges Study Recommendations



▪ Reserve Funds (Cont'd)

- Operating Fund:
 - Working Capital Balance
 - Minimum balance equaling 30 days of O&M expenses.
 - Currently \$2.5 million.
 - Operating Reserve
 - Guard against *short-term disruptions* in revenue resulting from such events as labor disruptions or airline fleet groundings.
 - 90 days of O&M expenses – currently \$7.5 million.
 - Access – City Council authorization.
 - Replenishment – Future net revenues.

Rates & Charges Study Recommendations



▪ **Reserve Funds (Cont'd)**

- Emergency Repair & Replacement Reserve:
 - Repair/replacement for unexpected facility/equipment or infrastructure damage or failures.
 - Examples – Lightning strike damage to airfield lighting system; wind/tornado/flood damage.
 - \$5 million balance.
 - Access – City Council appropriation for repair/replacement.
 - Replenishment – airline rate base.

Rates & Charges Study Recommendations



▪ **Reserve Funds (Cont'd)**

- Contingency Reserve:
 - Guard against effects of *long-term industry disruptions*, such as airline consolidations effecting service patterns, or catastrophic events such as terrorist acts 9/11/01.
 - \$10 million balance.
 - Equates to our accumulated deficits resulting from 9/11/01 events.
 - To be accessed upon exhaustion of Operating Reserve and Working Capital amounts (120 days of O&M expenses).
 - Allow for orderly response to structural change in financial conditions.
 - Access – City Council authorization.
 - Replenishment – Future net revenues.

Rates & Charges Study Recommendations



▪ **Reserve Funds (Cont'd)**

- Debt Service Reserve (Future):
 - Current debt for Garage B covered by an insurance policy instead of a reserve fund.
 - Amount to be determined by financial advisor at time of debt issue.

Rates & Charges Study Recommendations



■ **Capital Fund**

- Capital Fund:
 - Funding built-in to Cost Recovery Rate Model.
 - Transfers into Capital Fund projected at \$10 million annually.
 - Fund balance capped at \$30 million as a means of preventing unreasonable accumulation of funds.
 - Cap takes effect upon completion of LFMP or 2015, and is indexed to inflation.
 - Funds programmed for People Mover and Cedar Springs/Mockingbird intersection improvements are exempt from cap until 2017.
 - Access – City Council appropriation for capital improvements

Airport Rates & Charges Study

- **Summary of Recommended Changes:**
 - Lease Prevailing Rates – Love Field only: set to appraised fair market rents;
 - Parking Rates –
 - Garage A, increase from \$10 to \$12; and
 - Garage B, increase from \$7 to \$8.
 - Ground Transportation Fees –
 - Increase Taxi trip fee from \$1 to \$2.
 - Convert off-airport car rental and parking operators from \$2 trip fee to agreements charging 8% of gross revenue derived from airport business.
 - Terminal Food/Beverage and News/Retail –
 - Remedy space deficiency (increase revenue potential) through LFMP development.
 - Reserve Funds –
 - Operating Working Capital – 30 days, \$2.5M
 - Operating Reserve – 90 days, \$7.5M
 - Emergency Repair & Replacement - \$5M
 - Contingency Reserve - \$10M
 - Debt Service Reserve – To be determined

Airport Rates & Charges Study

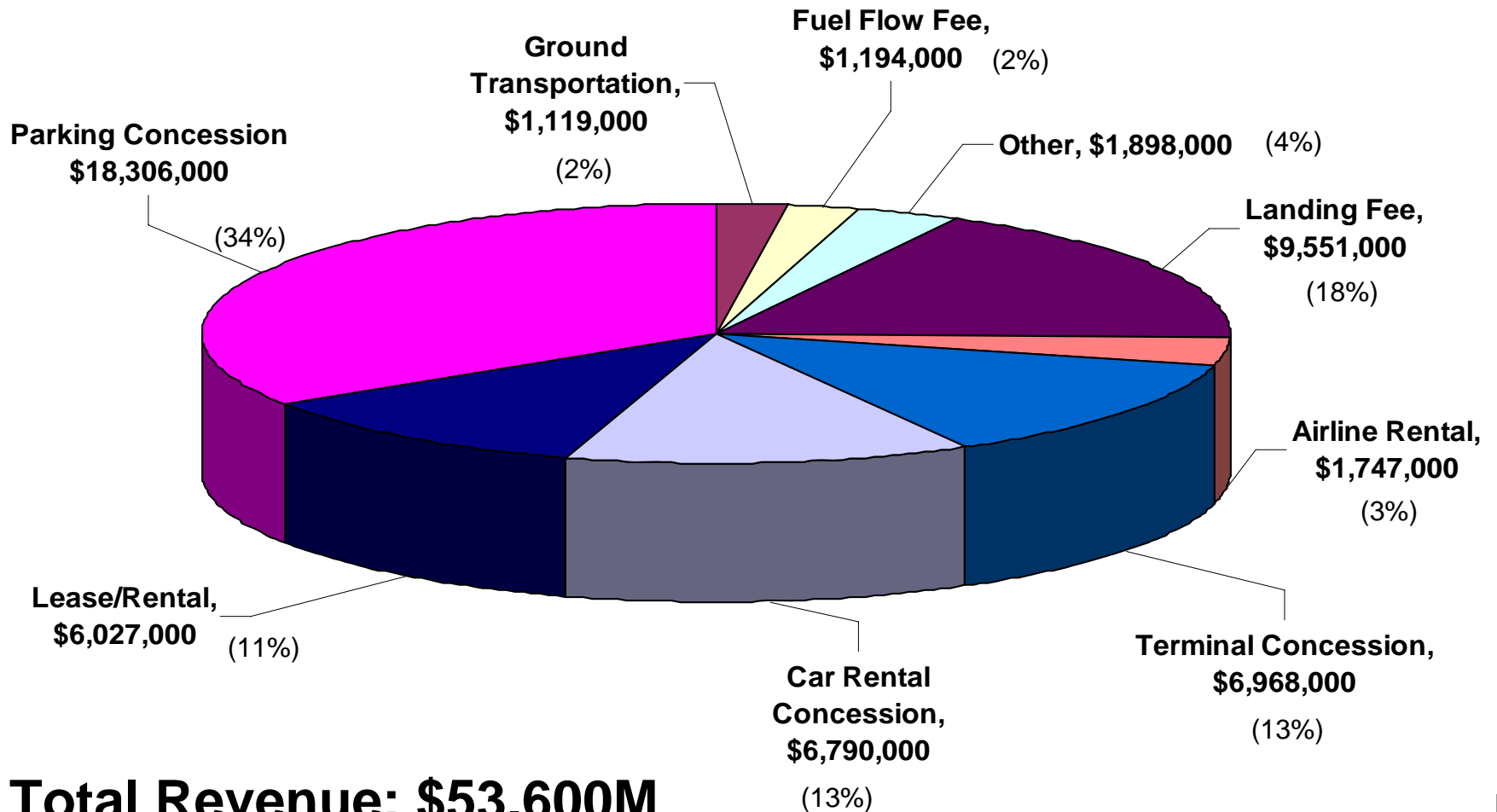


■ Pro forma Analysis of Recommendations:

	<u>Current</u>	<u>FY 2010</u>	<u>FY 2015</u>
Airline Terminal Rental	\$2,915,832	\$1,747,000	\$8,041,000
Airline Apron Rental	N/A	N/A	\$1,475,000
Landing Fee	\$4,903,199	\$9,551,000	\$8,763,000
Fuel Flowage Fee	\$1,383,795	\$1,194,000	\$1,254,000
Parking	\$13,225,238	\$18,306,000	\$25,086,000
Car Rental	\$5,673,653	\$6,790,000	\$9,025,000
Ground Transportation	\$238,176	\$1,119,000	\$1,752,000
Terminal Concessions	\$4,832,343	\$6,968,000	\$10,887,000
Lease/Rental	\$6,740,888	\$6,027,000	\$6,305,000
Other	<u>\$1,307,304</u>	<u>\$1,898,000</u>	<u>\$3,263,000</u>
Total	\$41,220,428	\$53,600,000	\$75,851,000
% Change		30.03%	41.51%

TOTAL REVENUE FY 2010

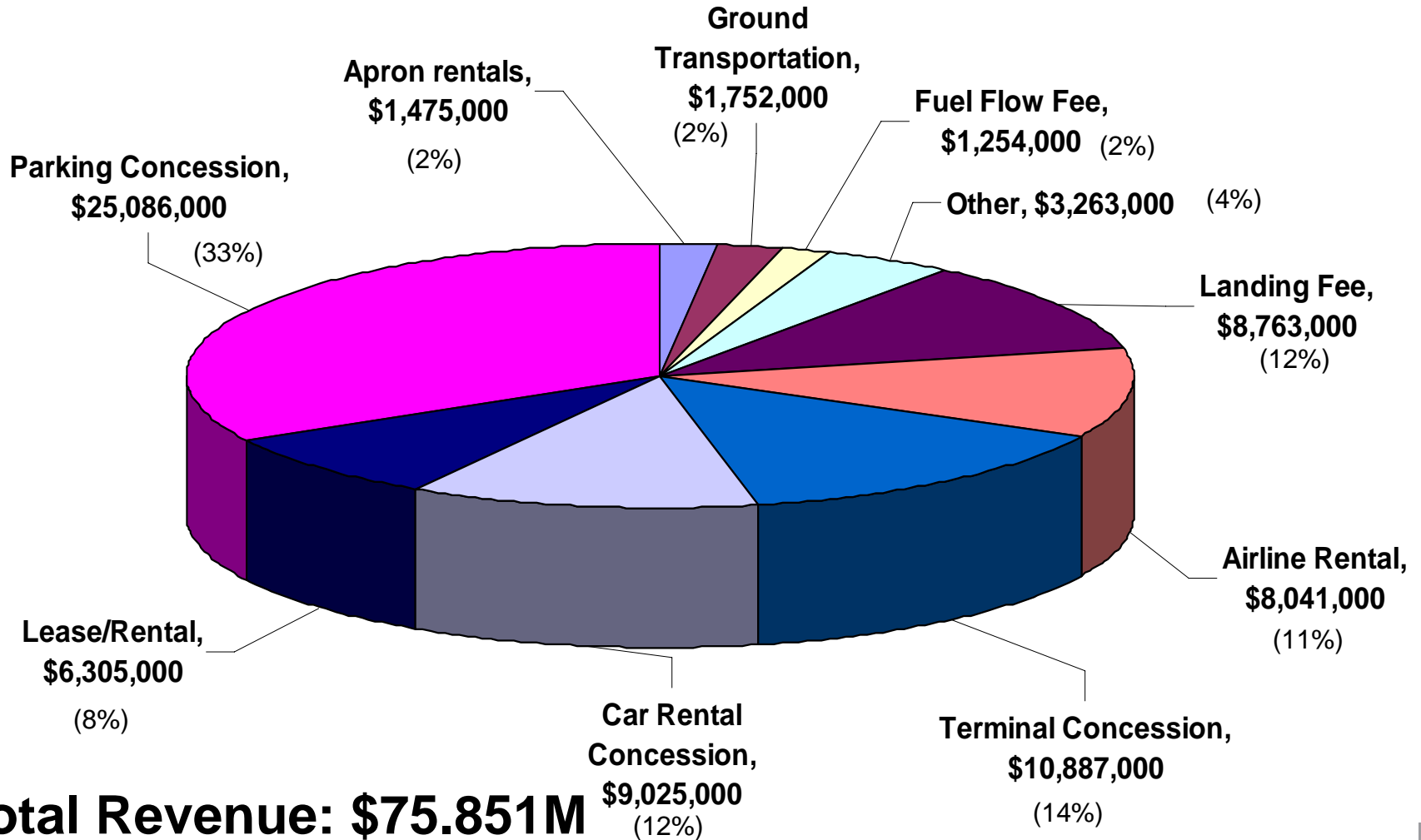
Fiscal Year 2010 Revenue Projected



Total Revenue: \$53.600M

TOTAL REVENUE FY 2015

Fiscal Year 2015 Revenue Projected



Total Revenue: \$75.851M

Airport Rates & Charges Study

- Next Steps:
 - City Council Approval:
 - Resolution Updating Love Field Prevailing Lease Rates – Aug 27.
 - Resolution Increasing Parking Fees – Aug 27.
 - Resolution Creating Reserve Funds – Aug 27.
 - Ordinance Amendment Increasing Fuel Vendor Permit Fee – Oct.
 - City Council Committee Briefing:
 - Interim Airline Rates and Charges (until implementation of Cost Recovery Model, estimated 2012) – Oct.
 - Ground Transportation Agreements – Oct.

Appendix

- Cost Recovery Rate Model 32
- Benchmark Analysis 33
- Appraisal Comparable Airports Lists 35

Cost Recovery Rate Model



CONCEPTUAL FRAMEWORK FOR NEW RATES AND CHARGES METHODOLOGY

Love Field Modernization Program

Dallas Love Field Airport

June 2008

Rates to be calculated based on "cost center residual" methodology

	Other Buildings and Areas	Airline Cost Centers			Parking and Ground Transportation
Cost Centers:		Airfield	Aircraft Apron	Terminal	
	Revenues	Costs	Costs	Costs	Revenues
	- Costs	- Other revenues	- Other revenues	- Other revenues	- Costs
Net:	Net Revenues	Net requirement	Net requirement	Net requirement	Net Revenues
	credit 0%	less: revenue sharing		less: revenue sharing	credit 75%
	City retain 100%	= landing fee requirement	= apron fee requirement	= terminal rental requirement	City retain 25%
Divisor:		/ airline landed weight	/ number of gates	/ airline space	
Rate:		Landing Fee Rate	Apron Fee rate	Terminal Rental Rate	
	transfer to: Aviation Capital Fund				transfer to: Aviation Capital Fund
Airline MII Purview of Future CIP Projects:	No	Yes, subject to exclusions in 5-Party Contract			No

Benchmarking Analysis

Summary of Select Parameters

(Note: Includes comparison of actual DAL rates and cost/revenue per enplaned passenger as indicated, with those of the survey average)

	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

Airport Benchmark Data Fuel Flowage Fee

	DAL Dallas Love Field	Medium Hubs Benchmark Average	Large Hubs		Medium Hubs					
			DFW	MDW	SAT	MCI	HOU	BNA	SMF	ONT
			Dallas Fort Worth	Midway Int'l Airport	San Antonio Int'l Airport	Kansas City Int'l Airport	Houston-Hobby Airport	Nashville Int'l Airport	Sacramento Int'l Airport	Ontario Airport
Other Revenues										
General Aviation										
Fuel flowage fee rate (\$0.xx per gallon)	\$ 0.07	\$ 0.06	-	-	Eff. 10/1/07 \$ 0.075	\$ 0.080	\$ 0.050	\$ 0.100	\$ 0.050	\$ 0.030
Fuel flowage fee revenue	1,263,916	485,824	\$6,230,055	\$ 275,000	\$ 443,725	\$ 637,822	\$ 860,859	\$ -	\$ 317,705	\$ 169,007

Love Field Airport



COMPARABLE AIRPORT RATES					
Airport	Unimproved Land	Improved Land (Ramp/Apron)	FBO/Storage Hangers	Maintenance Hangers	Office Space
Addison	\$0.65	\$0.70	NA	\$3.39 to \$6.25	\$10.00
Meacham	\$0.22	\$0.25	\$1.60	NA	\$8.56 - \$14.99
McKinney	\$0.30	NA	NA	NA	NA
San Antonio	\$0.570	\$0.744	\$2.33	Hangar \$3.00 Office \$3.30	\$2.56
Oklahoma City & Wiley Post	\$0.10	\$0.19	6% of market value	NA	\$10.00
Houston Hobby	\$0.31	\$0.375	\$3.81	NA	NA
Tulsa	\$0.22	NA	NA	NA	NA
Memphis	\$0.19	\$0.30	\$1.53 to \$3.69	NA	NA
Spirit of St. Louis	\$0.32	\$1.40	\$5.00	\$9.00	\$5.00
Nashville	\$0.09 to \$0.14	\$0.14 to \$0.20	\$1.00 to \$1.15	NA	NA
Centennial	\$0.13 to \$0.45	NA	NA	NA	NA
Louisville	\$0.41	\$0.41	\$5.80	NA	\$12.66
Jacksonville	\$0.17	\$0.20	\$2.50 to \$3.50	\$4.67 to \$7.95	\$12.00 to \$15.00

Dallas Executive Airport

COMPARABLE AIRPORT RATES				
Airport	Unimproved Land	Improved Land (Ramp/Apron)	Office/Hangar Space	Fuel Flowage Fee
Lancaster	\$0.13	\$0.13	N/A	\$0.06
Arlington	\$0.22	\$0.25	N/A	\$0.05
Ft. Worth Meacham	\$0.22	\$0.25	\$1.60	\$0.118
Ft. Worth Spinks	\$0.19	\$0.21	\$1.56	\$0.118
McKinney	\$0.30	\$0.30	N/A	\$0.09
Denton	\$0.17	\$0.22	N/A	6%
Majors Airport	\$0.24	\$0.24	N/A	\$0.05
Gainesville Municipal	<i>Negotiated</i>	\$0.14	\$300/mo	N/A
Grayson County	\$0.19	\$0.29	N/A	<i>Unknown</i>
Tyler Pounds	\$0.05	\$0.05	N/A	\$0.05
Draughon-Miller	\$0.10	\$0.10	N/A	\$0.05