

DATE ISSUED: April 30, 2003

REPORT NO. 03-087

ATTENTION: Honorable Mayor and City Council
Docket of May 6, 2003

SUBJECT: Appeal Hearing Regarding Annual Fee Increases at City Airports

REFERENCE: City Administrative Regulation No. 95.25 dated January 1, 1988
City Municipal Code Section 68.0119 dated August 4, 1970
Council Policy 100-5 dated April 9, 1979
Manager's Report No. 99-173 dated September 8, 1999
Resolution No. R-292180 adopted on September 14, 1999

SUMMARY

Issues – Should monthly aircraft parking and aviation fuel flowage fees charged by City Airports be increased to market rates?

Manager's Recommendation – Deny the Appeal and approve the fee increases to market rates for City Airports.

Other Recommendations – None.

Fiscal Impact - Total fiscal impact associated with this action will increase the Airports Enterprise Fund by approximately \$98,000 annually.

BACKGROUND

The City of San Diego owns and operates two General Aviation Airports, Montgomery and Brown Field. The Airports Division operates as a user-funded enterprise system, receiving no general fund subsidy. All revenues from airport rates charges and fees are used to support the operating, capital, and other cost associated with Montgomery and Brown Field. The City of San Diego *Administrative Regulation No. 95.25* provides for an annual review of the fees and charges

that the City departments may administer to recover the cost of providing services. City Municipal Code Section 68.0119 grants the City Manager authority to charge and collect fees associated with the City Airports. Council Policy 100-5 formalized the process of notifying the public when changes to fee structures are made.

The Final Policy Regarding Airport Rates and Charges (Federal Register/Vol. 61. No. 121) requires airports to maintain a fee and rental structure for the facilities and services at the airports to make them as self-sustaining as possible. The Final Policy also requires that all revenues generated by the airports, including monthly aircraft parking rents and aviation fuel flowage fees, be expended by it for the operating and capital costs of the airports.

The last time airport fees were brought to market rate was in 1999. Fuel flowage fees were increased from 4¢ to 5¢ per gallon with no appeal requested. Monthly tiedown fees were proposed to be increased from \$50 to \$85 for a single engine aircraft and from \$65 to \$100 for twin engine aircraft. In addition, a new fee structure of 8¢ per square foot was proposed for larger aircraft occupying over 1050 square feet. An appeal of the tiedown fees was requested. The City Council denied the appeal and directed staff to implement the increase over two years since an adjustment had not occurred for 10 years. Staff was also directed to review rates annually. After review in 2001, fees were not increased as the aviation industry was experiencing the impacts of the September 11 terrorist attacks. As evidenced by the number of based aircraft, annual operations and demand for aircraft parking, City Airports have since recovered. At Montgomery Field during calendar year 2002, annual aircraft operations increased 13% over 2001. In addition, there were no parking vacancies, and there was a waiting list for aircraft parking. At Brown Field during the same reporting period, the number of based aircraft increased, a new fuel provider began operations, and total aircraft operations increased 14%.

Stakeholders and users were properly noticed regarding the currently proposed fee increases. The proposed increase directly effect 98 aircraft at Montgomery Field, and the five fuel service providers that deliver fuel to the two City airports. On March 21, 2003 and March 25, 2003, letters were sent to the effected parties. The increases were discussed at the March 4, 2003 and April 1, 2003 Airports Advisory Committee (AAC) meetings. As of April 15, 2003, four letters appealing the increases were received and acknowledged. A summary of each appeal letter is addressed below.

DISCUSSION

Tiedown Fees

A survey of Fixed Base Operators based at Montgomery Field reveals that the City charges less to park aircraft directly to users than the FBOs charge users, indicating that the City’s rates are below market. For example, the range currently charged by Crown Air and Gibbs Flying Service, is 9¢ to 13¢ per square foot, for the same size parking area. The City had been charging 8¢ per square foot. The increase to 11¢ per square foot will eliminate any perceptions of unfair competition by the City. The new fee schedule is as indicated on the chart below.

PARKING SIZE	FROM	TO
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Standard Single Engine Space (≤ 1050 sq ft)	\$85.00	\$115.50
Standard Twin Engine Space (≤ 1050 sq ft)	\$100.00	\$136.00
Large Space (> 1050 sq ft)	\$0.08 per sq ft	0.11 per sq ft
West Tie Down Spaces (near Spiders)	\$69.00	\$85.00

An appeal letter from Gerald Blank, a pilot based at Montgomery Field and AAC member, dated April 9, 2003, was received and acknowledged. Mr. Blank requested information on how to appeal the aircraft tiedown fee increase. A response was provided to him within 24 hours.

Fuel Flowage Fees

The City currently charges 5¢ per gallon for fuel flowage fees. Prior to proposing the 2¢ per gallon increase to 7¢, staff conducted a survey of 21 comparable general aviation airports in the FAA Western Pacific Region. This included 16 airports in California, three airports in Arizona, and two airports in Nevada. The average fuel flowage fee is 6¢ per gallon. During the survey interviews, most airports indicated that an increase in fuel flowage fees is currently under review. The fuel flowage fee charged by the City is to the fuel service providers including Chevron, Texaco, and Air BP, which deliver fuel to the airports. The City does not charge individual aircraft operators directly for fuel.

FUEL FLOWAGE FEE	
FROM	TO
5¢	7¢

An appeal letter from Al Boyce, dated March 12, 2003, was received and acknowledged. Mr. Boyce asserted that the imposition of the fuel flowage fee increase was aggravating and unnecessary, citing the world shortages of crude oil.

Fund Balance

An appeal letter from Mr. Buzz Gibbs of Gibbs Flying Service, dated March 3, 2003 was received, acknowledged, and discussed during the March 4, 2003, AAC meeting. Mr. Gibbs referenced the City of San Diego Fiscal Year 2003 Annual Budget Revenue and Expense Statement, and calculated that the fund balance and reserve available would be \$7,213,205 at the end of the fiscal year. Among the concerns expressed by Mr. Gibbs, was how the revenues would be used, and if the City had plans to divert some of the airport enterprise funds to the City General Fund.

It appears that Mr. Gibbs mistakenly added the TOTAL RESERVE and BALANCE columns of the Annual Budget Revenue and Expense Statement. The total reserve (\$1,745,862) is set aside for prior year encumbrances and continued appropriations, and is unavailable. The airport enterprise fund balance must fully support all capital improvement projects (CIP) costs before the start of the project. Current capital projects at Montgomery Field consist of complete security fencing and an electrical upgrade project. Current capital projects at Brown Field consist of airside pavement rehabilitation and landslide building demolition. All four of these projects are in various stages of implementation, and costs total approximately \$5.7 million

dollars. Only portions of these CIP projects are eligible for grant reimbursements from federal and state agencies after the projects are completed. Recently, the airport enterprise fund balance was reduced by \$1.2 million dollars due to unbudgeted costs associated with settlement of the litigation filed by Brown Field Aviation Park (BFAP), which arose out the City's negotiations with BFAP for the proposed redevelopment of Brown Field. Hence, the culmination of open encumbrances, projected capital costs, and unanticipated expenditures could potentially place the airport enterprise fund in a deficit situation.

Other Issues

An appeal letter from Mr. Dave Bieber of Paladin Aviation, dated March 13, 2003, was received, acknowledged, and addressed at April 1, 2003 AAC meeting. Mr. Bieber suggests, among other things, that further studies be conducted and that consideration be given to airport reserves, grant obligations, and comparable airports.

These and other factors stated earlier in this report were considered. The proposed increases are reasonable and consistent with federal, state, and local rules, regulations, and polices that govern airport rates, charges, and fee schedules.

CONCLUSION

In accordance with City Administrative Regulations No. 95.25, City Municipal Code Section 68.0119, Council Policy 100-5, and Council Resolution No. R-292180, Airports Division proposes to increase airport fees and rents to market rates by increasing fuel flowage fees from 5¢ to 7¢ per gallon, and increase the monthly minimum aircraft-parking fee from 8¢ to 11¢ per square foot. Revenues generated by the increase will be deposited into the currently self-sufficient airport enterprise fund, and used to support operating and capital costs associated with Montgomery and Brown Fields. If the proposed fee increases are not approved, the airport enterprise fund could potentially be faced with an operating deficit.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce Herring
Deputy City Manager

MEANS/TLM

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Appeal Letters