

# Airport Beacon Report



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## THE FAA'S EXISTING RATES AND CHARGES POLICY - GENERAL AVIATION

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Within the FAA's existing Rates and Charges policy, which became effective in June 1996, there are two themes impacting general aviation that run rampant throughout the document. These two themes include fair and reasonable rates and charges and financial self-sufficiency. Although the policy is over ten years old, it is still very much "in play". As such, it is important to understand its impact, especially on general aviation airports.

The policy states that the airport has a "legal obligation to maintain a fee and rental structure that makes the airport as self-sustaining as possible." And, if an airport is not self-sustaining, then it should establish long-range goals to make it so. The one thing that is not provided for in the policy is the exemption for general aviation airports and for general aviation uses at commercial service airports. However, it does clearly offer flexibility in evaluating general aviation fees.

Most of the policy is geared toward air carriers and large hub airports, with little directly addressing the general aviation airport or even the GA aspect of large, medium, or small commercial service airports. However, most of the basic concepts are easily adapted to GA with only slight modifications.

In the policy, the FAA determined that "historic cost valuation", also known as HCA-based fees, continue to be the preferred method for airfield assets (identified as the airfield, public-use roadways, and ramps and aprons not leased on an exclusive or preferential basis). With regard to non-airfield assets, the policy allows for any reasonable approach to rate-



setting. Therefore, other methodologies of rate-setting, besides negotiation, continue to dominate the lease structuring for tenants like FBOs. However, airports still face the challenges of the requirement of "fair and reasonable" and "not unjustly discriminatory" rates and charges.

Many large airports use a "residual" method of rate setting, whereby the operating expenses of the airport allocated to the various tenants are based upon their pro-rata share of occupancy and/or usage. This methodology is most often applied to air carriers in the operational fees, but sometimes "trickles down" to the smaller tenants. Under the other "compensatory" method rate-setting, rates for each tenant are fixed, and the airport administration is responsible for making sure that expenses do not exceed the income derived. Most airports utilize a combination of the two methods for air carrier tenants (compensatory rates for the occupancy of space within the terminal and elsewhere on the airport, with residual rates for

operational costs). It is my opinion that this can, and in many cases should, be adapted to general aviation. Airports, especially general aviation airports, must get more creative in the revenue generation to become more self-sustaining.

Rate-setting methods such as appraisals and market rent studies will likely continue to be the approach of choice for airport sponsors and tenants alike. An unbiased analysis can serve to reasonably address the “fixed” assets of an FBO (i.e., land, office/terminal, hangars, ramp/apron, etc.) on a compensatory basis, based upon rental rates for comparable facilities at similar airports. The remaining revenue-producing components may be analyzed on more of a residual basis. In other words, in a perfect world where revenues equal expenses, an analysis of airport operating costs would yield a pro-rata share for expenses for each tenant, based upon its usage and/or occupancy of the airport, with the compensatory revenues for the fixed assets deducted first. The balance would be addressed utilizing variable revenue sources such as fuel flowage fees, percentage rents, licensing fees for subtenants, landing fees, etc.

Although somewhat conflicting with the previous statement, fuel flowage fees usually need to be analyzed on more of a compensatory basis, predicated on market-based fees throughout the competing region. Fuel is still the primary revenue source for most fixed base operators, and fuel flowage fees are almost always passed-through to the consumer, similar to a tax. Therefore, inordinately high fees can serve as a detriment to fuel sales, and consequently revenues for the airport.

One of the most controversial issues within the FAA policy concerns the requirement of “fair and reasonable” rates and charges. “The existence of an agreement may be a critical factor in evaluating the reasonableness of a fee, but section 47129 does not, by its terms, exempt fees set by agreement from the requirement of reasonableness.” While this statement primarily references air carrier agreements, it could be utilized in the case of GA leases. It certainly opens the door for renegotiation of certain “sweetheart deals,” if substantial shortfalls are

experienced by a sponsor or it receives significant discriminatory claims.

The policy also allows for reasonable and not unjustly discriminatory peak-pricing systems. The impetus for this follows the provision for equal distribution of costs consistently across all of an airport’s “cost-centers”. However, once again the policy is somewhat gray in its interpretation and suggests flexibility by airport sponsors, the use of local negotiation, and “standard industry practices.”

In order to achieve these goals set forth by FAA, airports that haven’t already done so need to survey their current financial situation, develop a reasonable plan of additional revenue generation to demonstrate a goal of financial independence, and, at the same time, maintain a level playing field for tenants to give them adequate opportunities to be financially stable. Tenants, on the other hand, need to work more closely with the airports in developing creative ways to generate additional revenues in ways that are least intrusive to their bottom-lines. The goal should be revenue maximization for both the airport and its tenants.

### **ASK ABS**

A monthly part of our newsletter is a section called "Ask ABS", where we answer aviation-related questions from our readership. (If we do not receive a question, we make one up.) Each month we publish one question that we receive with a joint reply from our professional consulting team. Please submit any questions via e-mail to Mark Davidson at: [mdavidson@airportbusiness.net](mailto:mdavidson@airportbusiness.net)

This month’s question comes from Richard Lesniak, Airport Manager of the Albert Whitted Airport in St. Petersburg, Florida. Rich asks: *“In the February 2007 issue of the Airport Beacon Report, you discussed performance measures that airports can use. In terms of monitoring tenant performance, specifically FBOs, is it commonplace to include performance measures as part of lease agreements, and if so, what are the more common performance measures that an airport would impose on a FBO?”*

There are actually two places where performance measures can be identified. In a general sense, they should always be included in your Minimum Standards. In a more specific manner, you can include performance measures within individual lease documents. Within your Minimum Standards, you can present an overview of the approved threshold levels of performance that the airport requires. The negotiated lease document will require more definitive requirements, perhaps even by approved types of activities.

Performance measures for FBOs will vary from airport to airport, but having standards for service levels is very important. The difficult part comes in how to measure service. The increase or decrease in fuel sales can provide a certain measure. For example, if a significant change is demonstrated by the monthly fuel report (more than 20 percent), then it should certainly be accompanied by an explanation. Further follow-up questions might include not only the total gallons by type of fuel, but for the number of aircraft fueled. It may be that given the airport's runway length, the fuel sales decline in the heat of summer.

Require the FBO to report on their marketing efforts and community outreach efforts. From that, set minimum levels as your baseline to measure progress. Require a specific dollar amount of reinvestment in facilities every few years, which can be maintenance or new construction.

It is important for the airport to remember that FBOs are unique and are often independent businesses persons with very specific ideas on how to operate their business. While it maybe reasonable, and even prudent, to establish performance measures for the airport operations, airport management needs to respect the independent nature of the FBOs by not creating unreasonable and overly burdensome performance measures and reporting requirements.



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