

CITY COUNCIL REPORT

DATE: December 15, 2011

TO: Mayor and Councilmembers

FROM: Stacey Button, Economic Vitality Director, Brandi Suda, Wanda Noffz, Barney Helmick, Andy Wagemaker, Ranbir Cheema

CC: Kevin Burke, Josh Copley, Jim Wine, Jerene Watson

SUBJECT: BUDGET RETREAT FOLLOW-UP: PROPOSED INCREASE IN AIRPORT PASSENGER FACILITY CHARGES

This report is in response to a request for more information as a result of Council discussion at the Budget Retreat regarding the proposed increase in Airport Passenger Facility Charges (PFCs). Included herein is historic information about PFCs, revenue calculations, other comparable airports, next steps in the application process, as well as information concerning the 3-cent fuel tax and an alternative recommendation.

DISCUSSION

Currently, Airport Passenger Facility Charges (PFCs) collected by Flagstaff Pulliam Airport are \$3.00* per ticket and are utilized to reimburse the City for the City's match portion of the runway extension in 2008. We are eligible to collect \$1,157,023 and based on the current rate, we have already collected approximately \$525,000 with the remaining balance of \$632,000 to be collected by February 1, 2015.

With an increase in PFCs from \$3.00 per ticket to \$4.50* per ticket, staff is projecting approximately \$113,000 in additional revenue in FY13 (assuming the PFC is approved for collection as of July 1, 2012) with an average of 2-3% growth from 2014 forward. This also assumes a new airline is added in January 2013, with a minimum additional 6,000 enplanements annually. The remaining balance is expected to be collected by March 2014 (approximately one year earlier than anticipated under the \$3.00 PFC model). The attached table clarifies the cash flows projected.

Staff is currently drafting documents for an increase in PFCs, and is subject to approval by the FAA. If approved, we anticipate this increase to go into effect by July 1, 2012.

Although we do not have data readily available regarding average ticket prices and related percentages (as there are too many variables with ticket prices and proprietary issues with airlines), following is an example of costs associated with a ticket purchase. Under the current FAA Passenger Facility Program, an airport can charge up to \$4.50 per enplaned passenger with a maximum of \$18.00 per ticket on the total itinerary. For example, if a passenger makes four enplanements during their trip, each enplanement charge could be \$4.50. If we increase our PFCs from \$3.00 to \$4.50 we are only able to recoup what is eligible to us. Additionally, the vast majority of airlines charge for baggage (i.e. \$25.00 for the first bag and \$50.00 for the second bag). On a ticket price of \$200.00, there would be a \$75.00 charge for baggage and a \$4.50 PFC for Flagstaff which equates to 2.25% of the ticket fee.

Please see the additional documents attached to this memo which show the other Arizona airports that are charging PFCs, as well as revenue calculations.

Additional information was also requested on the 3-cent fuel tax proposal. This was previously under consideration as part of the Use Tax proposal which was presented to Council in July of this year. Airport Director Barney Helmick recently provided an alternative surcharge called a Fuel Rack Tax for consideration and is explained herein.

Currently, all aviation fuel and Jet-A fuel is taxed in Phoenix for distribution via the Phoenix Fuel Farm even though the final fuel sale is in Flagstaff (in our case through Wiseman Aviation). The City of Flagstaff would need to pass this tax and replace the Phoenix tax. The City of Winslow which also has an airport recently did this, and now the tax proceeds go to Winslow instead of Phoenix. Staff recently spoke to Eclipse Fuels/BP Air and they concurred that the City of Flagstaff may be able to do the same thing. If so, it would not mean an increase to the end user in Flagstaff; rather it would bring the tax dollars here instead of Phoenix.

Presently, the information has been provided to Revenue Director Andy Wagemaker to determine if it is indeed a viable option and an alternative funding source to the 3-cent fuel tax.

*The City does not actually receive the full \$3.00 per enplanement. Rather we only receive \$2.89 per enplanement because airlines are allowed to keep a small administrative fee. When we charge \$4.50, we will actually receive \$4.39 per enplanement.

RECOMMENDATION / CONCLUSION

This report is for information only.

PFC APPROVED LOCATIONS
As of 12/01/2011

Associated City	State	Airport Name	LOCID	Hub size	Level	Total Approved	Duration	Start Date	Est. Expir. Date
		Laughlin/Bullhead							
Bullhead City	AZ	International	IFP	N	\$2.00	\$904,132	4y5m	5/1/2008	10/1/2012
Flagstaff	AZ	Flagstaff Pulliam	FLG	N	\$3.00	\$2,932,317	16y11m	12/1/1992	2/1/2015
Mesa	AZ	Phoenix-Mesa Gateway	IWA/AZA	S	\$4.50	\$38,141,055	8Y8M	11/1/2008	7/1/2017
Peach Springs	AZ	Grand Canyon West	1G4/PGS	N	\$3.00	\$9,614,736	15y7m	6/1/2008	1/1/2024
		Phoenix Sky Harbor							
Phoenix	AZ	International	PHX	L	\$4.50	\$2,491,171,800	26y4m	7/1/2002	11/1/2028
Tucson	AZ	Tucson International	TUS	M	\$4.50	**	6y6m	10/1/2006	4/1/2013
Tucson	AZ	Tucson International	TUS	M	\$4.50	\$44,194,512	4y5m	4/1/2013	9/1/2017
		Yuma MCAS/Yuma							
Yuma	AZ	International	NYL/YUM	N	\$4.50	\$2,707,035	10y8m	11/1/2007	7/1/2018

* Source of information from FAA
http://www.faa.gov/airports/pfc/monthly_reports/

Spreadsheet for Stacey Button
 Requested for PFC Revenue Analysis as of 12/15/2011
 Flagstaff Pulliam Airport
 Current Total Authorized PFC Amount: \$1,157,023

FISCAL YEAR BASIS

Fiscal Year	Estimated Enplanements	Reduce by 10% to be conservative	PFC Level	Actual PFC Revenues	Estimated PFC Revenues	Increase (Decrease) Over Prior Year	Portion Applied to PFC Grant	Cumulative PFC Grant Collected	Notes
2008	47,679		\$ 2.89	127,360	\$	\$	\$	\$	Actual Revenue
2009	58,665		2.89	148,119		20,759	132,530	132,530	Actual Revenue
2010	63,721		2.89	188,911		40,792	188,911	321,441	Horizon Pulled Out
2011	61,500	55,350	2.89	150,129		(38,782)	150,129	471,570	
2012	62,730	56,457	2.89		163,161	13,032	163,161	634,731	
2013	69,985	62,986	4.39		276,509	113,348	276,509	911,240	Amended PFC effective July 1, 2012 & New Airline Added - Add additional 6,000 enplanements.
2014	72,084	64,876	4.39		284,804	8,295	245,783	1,157,023	Need new PFC in place by this year. 3% growth projected for one year.
2015	73,526	66,173	4.39		290,501	5,696	-		2% stabilized growth from here forward.
2016	74,996	67,497	4.39		296,311	5,810			
2017	76,496	68,847	4.39		302,237	5,926			