

Airports charged with challenging task of setting rates

Editor's note: The next two issues of Briefings will cover several elements that should be included in an airport's policy handbook, a document that describes the rules and payment for using an airport's land and facilities. This Briefings will discuss the process for establishing rates and charges, while the summer issue will cover guidelines for developing and leasing airport property and establishing minimum standards for the operation of airport businesses.

Setting rates and charges can be one of the most challenging tasks an airport operator or owner undertakes, especially at smaller airports. It's difficult because each airport is unique, and so each needs to be looked at carefully and individually. Also, individual airports provide different services, and rates and charges can fluctuate depending on the types of services that are offered. Finally, if rates and charges are set too high at an airport, pilots can easily relocate their aircraft to another airport in the surrounding area. However, setting rates and charges does provide an opportunity to research information provided by the Federal Aviation Administration (FAA) and to talk with peers and related organizations, which can make the task easier and more enjoyable.

The basic starting point for each airport is to develop a policy handbook. A policy handbook is defined as "an approved document that sets forth the parameters for leasing airport land and/or improvements and outlines the process for establishing and adjusting rents and fees" (AAAE Rates and Charges Workshop, 2000).

The policy handbook serves as docu-

mentation for what is being done at the airport. As such, the handbook:

- Outlines the rules and regulations at the airport
- Provides a set of guidelines for documents used at the airport, such as leases, to make sure that everyone is treated fairly and equally
- Defines minimum standards and other airport policies

Every airport should develop guidelines for setting rates and charges as part of its policy handbook. "Many communities rely on a financial commitment [from people who use the airport] as a requirement for leasing and developing minimum acreage [land] or building space" (FAA Advisory Circular 150/5190-5). Without setting rates and charges, airport operators and owners lose out on an opportunity to offset airport operating expenses.

Among the advantages to having a lease, rates, and charges policy are that it can:

- Set the parameters for leasing land or making improvements at an airport



- Outline the process for establishing and adjusting rates and fees
- State how often to adjust the rates throughout the lease term
- Establish the minimum terms of the lease
- Establish who has leasing authority

A lease, rates, and charges policy defines the application requirements that apply to any aeronautical service wanting to operate on an airfield. An application should be completed to help airport owners and operators guarantee that service providers are fair and honest before a lease is signed.

Varying airport sizes and activities makes developing a standard form almost impossible, but the FAA has created a rates and charges policy that can be used as a reference when deciding what to include as a general policy for airports of all sizes. This form, found in the *Federal Register* (www2.faa.gov/arp/pdf/rates1.pdf), applies to federally assisted airports and lists all areas to cover when developing a rates and charges policy.

Five steps for determining rates and charges at an airport

1. Develop an airport profile. Start by listing a few facts about the airport, such as the runway length(s), based aircraft, number of annual operations, fuel sales, type of approaches, number and type of aviation businesses located at the airport, and the amount of land available for development. Determining the number of annual operations may not be easily available if the airport does not keep an accurate log or does not have a control tower to help develop these numbers. An airport operator can contact the Minnesota Department of Transportation (Mn/DOT) Office of Aeronautics or consult the

State Aviation System Plan (SASP) to determine annual operations at his or her own airport or other airports.

Next, identify comparable leaseholders in terms of commercial versus noncommercial uses, location, access to the airfield, type of land use, quality of the land,

condition of the facilities, and other improvements (access to aprons or other paved areas, for example). A final consideration for developing an airport profile is the component rents. Component rents should be broken down as either "real-estate related" (renting unimproved land, improved land, or facilities) or "non-real-estate related" (charging businesses a percentage of their gross receipts as rent for use of airport facilities).

2. Once enough information is gathered to form a detailed profile, identify comparable airports with the same profile. The first place to start comparing your airport's profile with similar ones around the state is in the *Airport Directory and Travel Guide*, which can be obtained from the Mn/DOT Office of Aeronautics (800-657-3922) or online at www.mnaero.com. Also, consulting with your airport's regional engineer at the Office of Aeronautics may provide an idea of which airports are similar to yours. The airport operator or owner should consider the area surrounding the airport, such as the distance to and the size of the closest town and the type of activities that occur in the surrounding area.

3. Obtain rental rates, fees, and related information from comparable airports that were identified in step two. Before setting rates and charges, an airport operator or owner should first conduct a market survey to determine what amount surrounding airports are using for their rates and charges. This can be done by conducting research on the Internet, calling airport managers or owners, or talking to other users of the airports that were identified previously. From this survey of airports of similar size, rates and charges can be compared and analyzed to obtain an appropriate rental rate for your airport. In addition, you may want to investigate

rental rates for off-airport storage buildings in the community. The process of gathering comparable information may be time consuming, but the effort will yield better results. With this information, the airport operator or owner will have a better understanding of what would be a competitive and fair rate to charge airport users.

4. Analyze the data collected from comparable airports. Here is where the airport operator or owner will start to develop and decide what rates and charges would be suitable. Airports can use considerable leeway in this area so that appropriate elements are considered. Because each airport is unique, it is best not to use the exact same rates and charges that were received from another airport, but rather, to consider the particular aspects of your airport.

5. Set the rates and charges. The airport operator or owner may need to get approval from the city council or county board before putting rates and charges information in writing. Informational meetings are also helpful for letting airport users know what is planned. Once the rates and charges are set, the leases and operating agreements should be updated using the guidelines developed for your airport's policy handbook.

Adjusting rates

Once rates and charges are set, they should not remain set at the specified level indefinitely. Rather, regular adjustments should be made throughout the term of the lease—about once every three to five years, whenever an option is exercised, or whenever the lease term is extended.

There are several ways to adjust rates

and charges once the base rates have been set:

- Negotiate with the lessee
- Determine a fixed amount or percentage that the rates will be adjusted to
- For increases, use an index such as the Consumer Price Index, Producer Price Index, or Airport Economic Index
- Conduct another market study as described previously
- Conduct a property appraisal
- Use a combination of alternatives to adjust rates and charges

Regularly adjusting rates is important in that it can help the airport compensate for changes that happen in the industry and the economy as the airport grows and changes.



Resources

- The American Association of Airport Executives (AAAE) Rates and Charges Workshop (2000), presented by Paul A. Meyers from Aviation Management Consulting Group in Englewood, Colorado. For notes from this presentation, visit www.airportnet.org.
- *Federal Register*, Vol. 61, No. 121, "Policy Regarding Airport Rates and Charges," www2.faa.gov/arp/pdf/rates1.pdf.
- FAA Advisory Circular 150/5190-5, found at www2.faa.gov/arp/ACs/5190-5a1.pdf.
- Minnesota Council of Airports (MCOA) Airport and FBO Survey, completed in 2000. To request a copy, contact Jeff Stewart, WSB & Associates, at 763-287-7184 or jstewart@wsbeng.com.

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