

“FLY MONTEREY”
**THE MONTEREY REGIONAL AIRPORT: AN ANALYSIS OF
OPERATING EXPENSES AND REVENUE OPPORTUNITIES**



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SUMMARY

Based on interviews and research that raised an issue of the sustainability of Monterey Regional Airport (MRA), the Monterey County Civil Grand Jury (MCCGJ) elected to conduct an investigation into the airport’s business operations, a critical element in its ability to remain a viable business enterprise and commercial airport for the citizens of Monterey County. Since less than half of the airport’s income is earned from providing commercial airline services, the investigation focused primarily on current non-airline operating expenses and analyzed potential revenue opportunities that may exist at the airport. The MCCGJ found that the Monterey Regional Airport is a well-managed operation with potential to expand its revenue and strengthen its viability.

BACKGROUND

Founded in 1941, Monterey Regional Airport (MRA) exists as a “non-hub primary commercial service, class 1 airport” as defined by the Federal Aviation Administration (FAA). The airport is currently served by four airlines: Alaska, Allegiant, American, and United. The operations of the airport mirror the operation complexities of a small city, as it is required by the FAA to provide fire and police protection among numerous other services. The airport substantially contributes to the regional economy and is considered a valuable community asset, playing an important role in serving the transportation needs of Monterey County residents and visitors.

The Monterey Peninsula Airport District (MPAD) was created as a public airport district whose territory and boundaries exist within Monterey County. The object of the district is to acquire, own, lease, improve, operate and maintain a public airport for civil and military purposes. The District was established as a body corporate and politic, meaning it is to be treated as a corporation.

The voters who reside within the Monterey Peninsula Airport District, elect a board of five directors who serve four-year terms and govern the Airport proper. The airport proper consists of 498 acres. In addition to the airport itself, the District boundaries encompasses an area that includes portions of Monterey, Pacific Grove, Del Monte Forest, Pebble Beach, Carmel-By-The-Sea, greater Carmel, Del Rey Oaks, Seaside, Sand City, the Monterey-Salinas Highway to Laureles Grade and the west end of the Carmel Valley (Figure 2).

Monterey Regional Airport is surrounded by commercial buildings and family homes with little, if any, room for airport property expansion. In addition to the actual airport facilities, the Airport District owns numerous buildings on the property that generate income for the airport. Currently 126 single engine, 21 twin engine and nine jet engine aircraft are based at the airport. 211 hangars and tie downs, and approximately 55 business tenants are found on the airport grounds (Figure 1).

According to its 2014 Mission Statement, Monterey Regional Airport will “provide the region convenient commercial and general aviation access to the national air transportation system, operate the

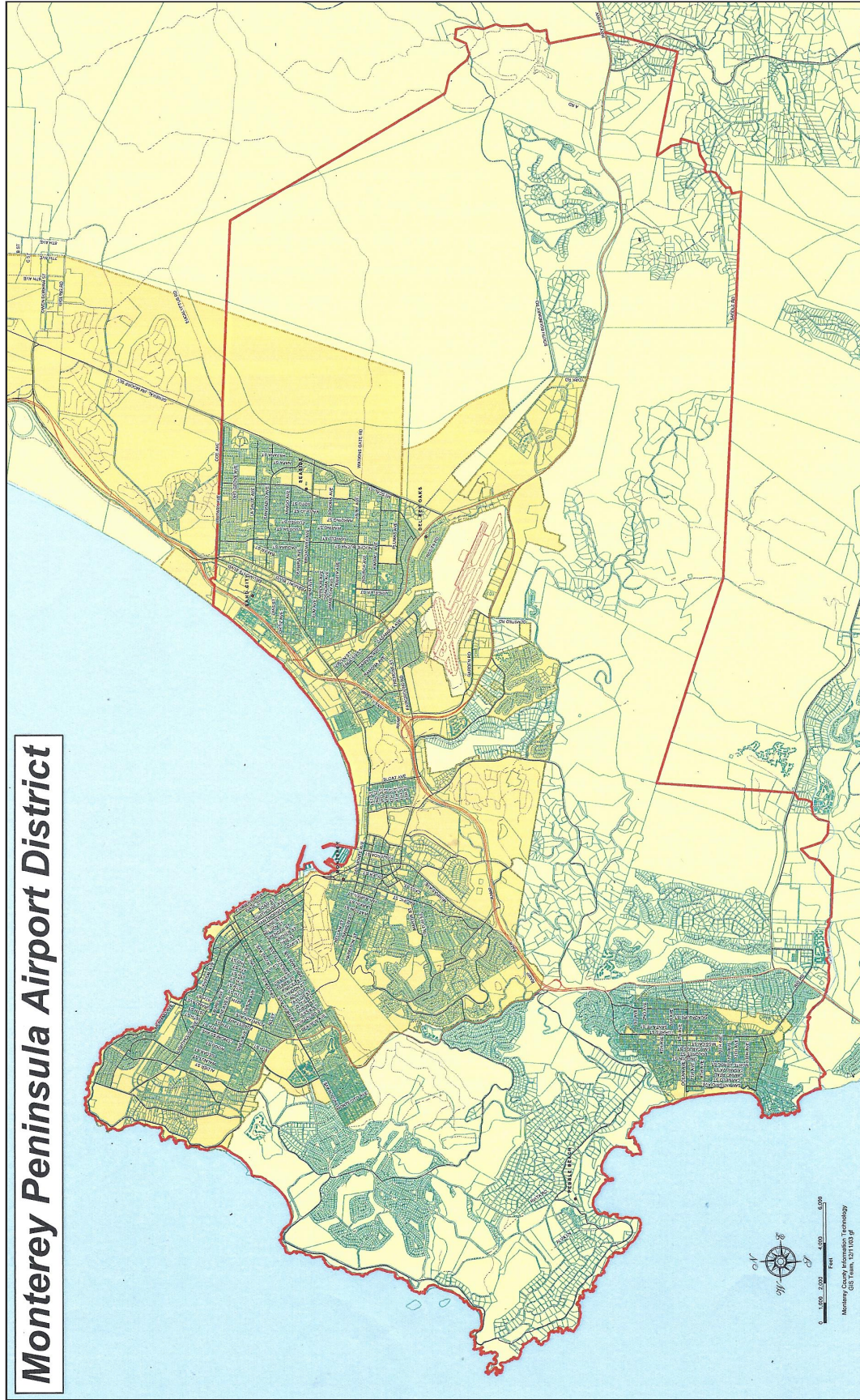


Figure 2. Monterey Peninsula Airport District (boundary in red).

airport in a safe, efficient, sustainable and fiscally responsible manner, and develop the airport to meet future needs, opportunities and challenges.” MRA is currently working on a revision of its Airport Master Plan, which is intended to take a short, intermediate, and long term view of the airport’s “20-year planning horizon,” with the goal of maintaining its viability. Both professional consultants and a 25-member project advisement committee representing a variety of volunteer stakeholders drive development of the Plan.

INVESTIGATIVE METHODOLOGY

The MCCGJ interviewed members of the airport Board of Directors, several members of the airport management team, the airport’s safety personnel, an airport property lessee and a local commercial realtor. We consulted two Aircraft Rescue and Firefighting Facilities (ARFF) specialists with the Federal Aviation Administration (FAA). Members of the MCCGJ also, reviewed the Master Plan in progress, attended the MRA Master Plan Information Workshop on November 18, 2014, and the MRA Board of Directors meeting on January 14, 2015. The following publications were also reviewed:

- Monterey Regional Airport Master Plan, Resolution No. 1621: Adjustment of Rates and Charges at MRA for Fiscal Year 2015
- Summary of Leased/Rented Spaces, June 30, 2014
- Monterey Regional Airport Master Plan (Study) including Meeting Summaries—January 23, April 15, July 8, 2014
- FAA memorandum re: 14 C.F.R. 139.303(a) re: fire staffing requirements
- City of Monterey Fire Department Projected Annual Budget/Pricing Details for Monterey Regional Airport Fiscal Year 2013-2014

DISCUSSION

The Monterey Regional Airport undertakes an annual review of its finances, including adjustment of rates and charges. Aviation rates are set in accordance with the FAA airfield residual cost recovery methodology. Terminal area rental rates are set annually and in accordance with the terminal compensatory cost recovery methodology (MRA Resolution No. 1621). Any adjustments to rates or charges may be implemented through the adoption of rate and charge resolutions.

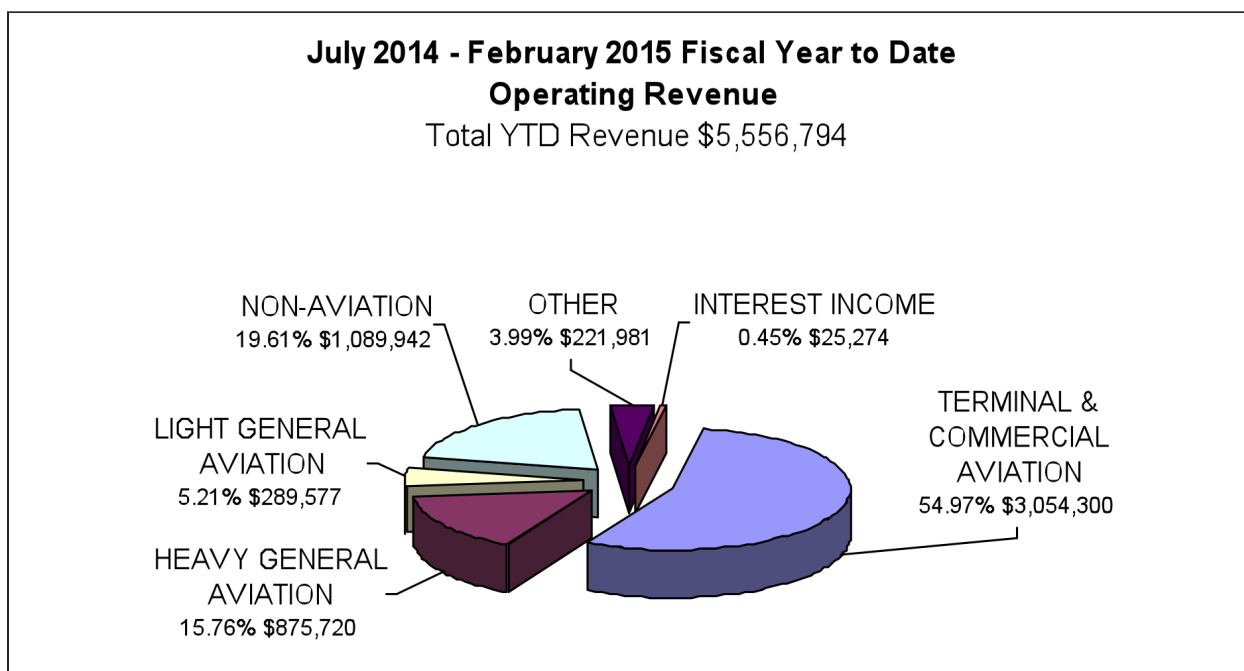
It is the job of the airport’s General Manager (GM) to ensure the airport and its vendors observe the provisions of all contracts, privileges or franchises granted by the Airport District. The GM reports to the Board of Directors any violation and provides general supervision over all property of the Airport District, including the maintenance and improvement of real and personal property owned or leased by the Airport District. The General Manager’s job description was last revised in May 2009 and may be updated when a new GM is hired in July 2015, following the retirement of the current GM.

Maintaining a steady, profitable income stream from leasable airport facilities needs to be carefully orchestrated. The goal is to maximize occupancy while maintaining rates that are competitive and will attract tenants. Many airports have significant acreage devoted to non-aeronautical uses, such as industrial parks, recreational uses, agricultural leases or retail businesses. These are intended to im-

prove the airport's overall financial position. As an enterprise (for-profit) agency, the airport is mandated by its charter to cover operating expenses through revenue. Any profit is reinvested in capital improvements. A modest property tax (\$135,000 +/-) is collected each year from Monterey County and designated to be used only for capital improvements or marketing.

The MRA Board of Directors has recently formed a new ad hoc committee to review airport property development and leases and to maximize potential income-producing opportunities for the airport.

MAIN REVENUE SOURCES



Landing and Gate Fees from Airlines

Of all passengers traveling by air from the greater Monterey market service area, there is currently only a 40% “catchment” which is the percentage of passengers in the area who want to travel by air and actually use Monterey Regional Airport. It is assumed that ticket price, reliability, number of direct flights to hubs, and convenient departure times are determining factors in passengers’ decision to use airports in San Jose, Oakland and San Francisco for initial flight departures. The Monterey Regional Airport staff is continually working with current airline partners and other airlines to bring more flights to the airport; scheduling flights is ultimately the decision of the airlines, not the airport.



MRA has recently undertaken an extensive advertising campaign—“Fly Monterey”—by using television and social media to encourage area residents to use Monterey Regional Airport as their initial point of departure. It is expected that entities such as Laguna Seca Recreation Area, Pebble Beach Resorts, the Monterey County Convention and Visitors Bureau and the hospitality industry will support and encourage their inbound customers to use the airport facilities as part of their travel plans. It is also hoped that targeted advertising to local

outbound passengers from the surrounding areas of Watsonville, Santa Cruz and Salinas will lead to increased airport use.

Other Fuel and Landing Fees

Private and Government aircraft owners purchase fuel and pay landing fees from the two Fixed Base Operators (FBO's). As a cost saving measure, the FBO's have formed a separate company to purchase bulk fuel for dispersal to their customers. The landing fee is collected on all aircraft over 6,000 lbs., and remitted to the District.

Property Rentals and Leases

Pricing to local market rental rates is the goal of property rents and leases. Rentals and leases are a delicate balancing act, and it cannot be assumed that annual consumer price index increases to tenants are sustainable, as business income does not necessarily increase at the same rate. Property rentals and leased spaces fall into three categories: 1) Passenger Terminal Spaces, 2) General Aviation, and 3) Non-Aviation.

1) Passenger Terminal Spaces: This is the area within the terminal that is leased to airlines, food and gift concessionaires, and rental car companies. These spaces are either leased by the square foot or as a percentage of gross concession.

This passenger terminal use appears to be at a maximum capacity. A summary of the July 8, 2014 Master plan Meeting stated "terminal building analysis indicates the certain functional areas are already at capacity such as the hold rooms and the TSA screening areas. In terms of total area, in the long term, a total of approximately 92,000 square feet is forecast to be needed (the current total is 69,000sf.)."

2) General Aviation (GA): This includes both Fixed Base Operators and light general aviation.

Two Fixed Base Operators (FBO)—Monterey Jet Center and Del Monte Aviation—service both heavy (business and government jets and turboprops) and light (non-jet) aircraft. These two tenants have entered into long-term leases with the Airport District and occupy the area at the west end of the airport property. They are responsible for their own improvements and provide full service (fueling, maintenance and flight planning) operations.

"Light" general aviation refers to:

-  Specific areas where the airport leases a designated piece of land to a master tenant on a long-term lease; the tenant then builds hangars and leases them on a month-to-month basis.
-  A number of small "T" shaped hangars and tie downs that MRA owns and leases on a month-to-month basis.

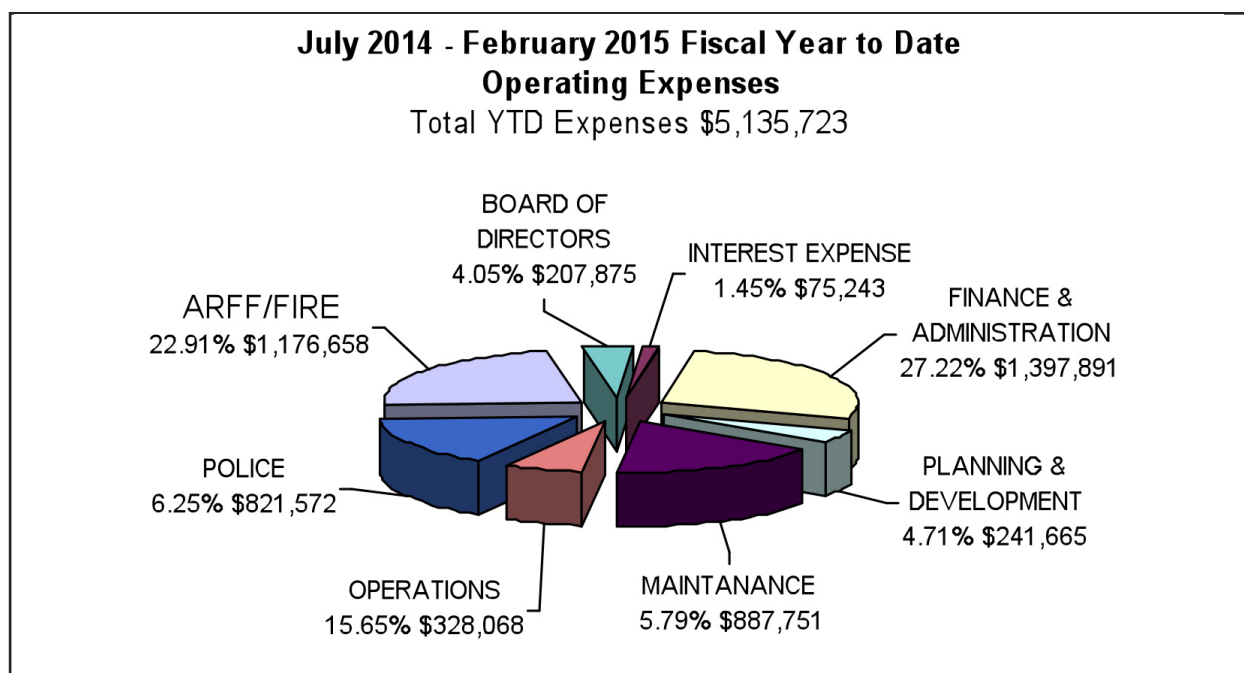
3) Non-Aviation: This includes both long and short-term leases, usually on a square foot basis mostly for buildings located on the north side of the airport property. Tarp's Restaurant, located on the east end of the airport property, is contracted as a land lease. The outdoor storage area, consisting of RV storage, Self-Storage concession facilities and tree trimming company vehicle storage are located on the southeast side of the property.

Airport buildings for lease are a major component of the airport's fiscal operations. Ongoing maintenance of such buildings is inconsistent, and it is likely that the occupancy rates will suffer if the buildings deteriorate.

A review of the airport's June 2014 Summary of Leased/Rented Spaces showed that four properties have occupancy of 83% or lower occupancy. These included Terminal Space Storage at 81.5%, Light General Aviation space and facilities at 82.4%, Light GA tie-downs at 42.2% and Non-Aviation Outside Storage at 63.7%. Despite these four areas, the airport's overall average occupancy rate is an impressive 93.8%.

An important non-aviation concession is airport parking. At MRA, the parking rates have not changed since 2007/2008. Parking rates can be considered an enticement for customers, as most other costs have increased between 2007 and the present. Some airport customers have also discovered that there is free, unlimited parking on public streets within walking distance of the airport. MRA has had initial conversations with the City of Monterey about limiting street parking in some manner fitting the neighborhood, thus returning airport patrons back to the airport lots.

OTHER AIRPORT OPERATIONS



The MCCGJ found that the salaries of personnel at MRA rank very high in comparison to other similar airports. Given the high cost of living in the Monterey area, adequate airport employee salaries serve to encourage high quality personnel to relocate and live in this area.

Fire services are staffed in compliance with FAA regulations (part 139 ARFF, Index B airport). In a relatively new agreement, these services are shared with the City of Monterey, providing cost savings, more personnel, reduced overtime costs, more training for Airport District personnel and improved fire services for the surrounding community. Police services are currently operated by the airport, primarily because of the nature of police requirements at a small airport. However, the question of in-house vs. shared police services remains a topic of discussion.

As a “federally obligated” airport, the airport property is first to be utilized for aviation purposes. If current and future aviation needs can be met, excess property may be used for compatible non-aviation purposes, including revenue support. The FAA provides guidance on what business activities are and are not compatible with airport activities. Following FAA guidance, the Board of Directors makes the final determination for any land use that is allowable.

The airport is not incorporated into the city or county, nor is it currently a public utility. However the potential to become a utility district does exist. This opens the possibility of ‘new’ revenue streams such as electrical management, telecommunications, underutilized water allocation, or solar farms that could be designed to have a low impact on adjacent neighborhoods.

Public elections for the Board of Directors are held every two years and are currently conducted by the Monterey County Elections Department. Each election costs the airport \$135,000 regardless of the number of seats challenged. Consideration is being given to the retention of a private election company that would conduct the election, ostensibly at reduced costs to the requesting entity. Local municipalities and districts such as Carmel-By-the Sea and Moss Landing Harbor District have engaged such companies for election services.

FINDINGS

- F1.** The occupancy rate for non-aviation ‘outside storage areas’ properties is 63.7%, significantly lower than other Monterey Regional Airport spaces.
- F2.** Monterey Regional Airport parking rates have not been adjusted in seven years and are losing potential revenue for the airport.
- F3.** The availability of street parking in the adjacent neighborhood is causing the airport to lose parking revenue.
- F4.** The possibility exists to redefine the airport property as a “utility” district, potentially generating new revenue streams.
- F5.** The airport’s north side property is a valuable, income-producing asset contributing to airport operations.
- F6.** Most tenant leases are subject to CPI (Consumer Price Index) rate increases. In some cases however, tenants cannot raise their price point at the same rate and remain in business.
- F7.** MRA pays competitive-to-high salaries for airport personnel, enabling employees to live on the Monterey Peninsula.
- F8.** MRA is currently underutilized by area residents, capturing only 40% of the passengers in its service area.
- F9.** Increased airline activity at the airport will increase revenue. Discussions with airlines, are currently underway.
- F10.** The Airport District is making a concerted effort to reach customers through local TV advertising and has begun to use social media to promote its services.
- F11.** The cost of Board of Directors elections can potentially be reduced by privatizing the election process.

RECOMMENDATIONS

- R1.** Dedicate adequate staff to oversee the property management component of the airport's revenue.
- R2.** Immediately evaluate non-aviation 'outside storage areas' such as the areas occupied by the current tree service tenants, to determine what can be done to encourage additional tenants.
- R3.** Provide regular maintenance and upgrades to the buildings that are located on the airport's north side property, to keep them rentable and up to standards.
- R4.** Confirm that all airport property rates are in line with local 'market rent' rates.
- R5.** Immediately research the potential of redefining MRA as a utility district to generate new revenue streams.
- R6.** Evaluate the impact of raising parking rates.
- R7.** Enter into further discussions with the City of Monterey to regulate free street parking on the adjacent city streets.
- R8.** Work with the local tourist and hospitality industry (Monterey County Convention and Visitors Bureau) to expand marketing of the area as a destination.
- R9.** Consider advertising with online commercial real estate services (such as LoopNet) as a means of attracting tenants.
- R10.** Expand the use of social media for marketing purposes.
- R11.** In terms of advertising, continue to emphasize the traveler's savings on time, gas, hotels, parking, and traffic aggravation by flying from Monterey.
- R12.** Continue to work with various airlines to pursue additional flight destinations.
- R13.** Immediately research the potential cost savings of hiring private companies to administer airport Board of Directors elections.
- R14.** Annually revisit the question of using shared police services vs. in-house services.

RESPONSES REQUIRED

Pursuant to Penal Code Section 933.05, the Grand Jury requests a response to all findings and recommendations from the following governing body:

- Monterey Regional Airport Board of Directors