Skirting the Fence

The on-airport, off-airport rates & charges debate comes to a head — and a solution — at Scottsdale

John F. Infanger, Editorial Director at 'Airport Business' magazine | JAN 8, 1999

SCOTTSDALE, AZ — There is, of course, somewhat of a Catch-22 scenario surrounding any situation in which an airport sponsor is attempting to attract corporate and commercial tenants to an airport. It is true even more so for ones with no commercial airline activity. The overriding question that circles the bargaining table is this: How much does the airport give in concessions to attract the tenant without giving away the store?

Taking it one step further: What happens when the potential tenants will actually be located off-airport? They use the runway, taxiway, and other airport infrastructure for access purposes only — while contributing an economic development impact for the community. How does airport management recoup from these through-the-fence operators the necessary revenues needed to maintain the infrastructure?

In essence, that's the dilemma officials at Scottsdale Airport here have been confronted with for years. Now, after years of debate and at times heated confrontation, they appear to have come to a solution or middle ground that seeks to appease anchored tenants, non-tenant users, and airport management's concerns regarding revenue.

Put simply, it has not been a road paved with easy answers.

Yet, the recently approved solution can serve as an example to other airports faced with the corporate tenant question, through-the-fence challenges, or both. It also serves to demonstrate the role — or non-role — FAA is willing to play in resolving conflict under these circumstances. Ironically, in an industry which often calls for the agency to back off and let it handle its own affairs, that is essentially the posture FAA took at Scottsdale. The agency did require, however, that a resolution be achieved. (It's position might be equated to the Supreme Court Justice who said he couldn't define pornography but knew it when he saw it. At Scottsdale, FAA didn't want to offer clear definition for creating a non-discriminatory environment; but it knew discrimination when it saw it.)

A bit of history

In the 1960s, as the City of Scottsdale began its development effort to become a resort community in the Southwest, officials integrated the airport as a vital tool in the process. A separate, adjoining Airpark was created to meet the demands of operators seeking more autonomy than most U.S. airports offer, in particular ownership of the land and the opportunity to operate their own fuel farms. Scottsdale, of course, did indeed develop into a vibrant resort attraction.

The airport and Airpark grew as well. However, how they grew was, in hindsight, not exactly unpredictable — a good test case for an airport management college exam, perhaps. The Airpark became a mix of first class and modest corporate facilities; vibrant and marginal commercial ventures; hangars filled with aircraft or with boats, cars, fix-it shops, and the like; some 20 separate fuel farms; and, an access control system that was at best limited.

The airport, meanwhile, saw fixed base operators come and go, with as many as three at one time and today only one, along with a full-service maintenance facility. Three fuel farms sit on airport property, and airport revenues ride the ebb and tide that comes with a resort location.

Airpark users were charged either a 5 cents/gallon flowage fee — tracked by a method of coupon use — or one-half the regular tiedown rate of an airport-based aircraft. In 1985, the inevitable occurred: On-airport operators filed a complaint with FAA charging discrimination.

Recalls airport director John S. Kinney, "FAA took a look at the situation and said, yes, you have a discriminatory rate structure; fix it. That's what created the first go-round to come up with a regulatory document" for rates and charges.

"Each side could present compelling arguments," he continues. "In the Airpark, you're purchasing the land, and you need to pay the commercial tax rate ... and you need to put up the building. The folks on-airport say, Airpark tenants have the investment until the end of time and the ability to sell it and recoup their investment; meanwhile, we're trying to nurture and create a market on an airport where many (Airpark) tenants have their own fueling.

"So, how do you truly equalize the burden while at the same time recognizing the relationships created 20-25 years ago?"

Seeking a compromise

Two years ago, Scottsdale hired independent consultants, Airport Business Solutions (ABS) and The Aviation Group, to find an answer. Comments ABS president Michael Hodges, "It was a unique project from the standpoint of the airport having to be careful to protect the interests of the airport tenants which are its primary revenue source, while protecting the tenants of the Airpark who are vital contributors to the community."

An ABS analysis showed that tenants of the Airpark accounted for 10-15 percent of airport utilization, yet were actually paying 3-5 percent of airport revenues.

Explains Hodges, "We initially started by looking at a pure cost recovery structure for the Airpark's pro rata share of airport and operating cost. We looked at putting in gates and charging access fees based on size of aircraft; that way, it was truly a user fee. One of the problems was that certain users, such as recreational, may go in and out of a gate four or five times a day; it got to be unreasonable versus a corporate jet."

Adds Kinney, "There was a huge sticker shock associated with that. The Airpark folks just swelled up in opposition and felt that they became a stepchild overnight."

Implementing a plan

During the recent two-year reexamination process, a full-time person was hired, dedicated to collecting airport rates and charges, which Kinney admits were not being fully accounted for under the previous coupon system. "We've increased revenues in terms of collections, almost to the point of paying for that individual's salary package alone. It's also helped us with more of a community policing-type approach, because we have someone consistently interfacing with the tenants at the Airpark.

The new rate structure, approved in December, should improve the revenue stream even further, he says. It calls for all fuel farm operators to pay an 8 cents/gallon flowage fee. In addition, Airpark tenants also pay one-half the normal tiedown fee. "If you're doing condominium hangaring or office complexes so that you have capacity beyond your immediate fleet, then you would also pay 5 percent of that revenue," explains Kinney.

Says Hodges, "It's much more equitable than the previous system, one that most people felt comfortable with. It's a recognition that the Airpark tenants provide a definite benefit to the city and to the airport; it couldn't be a pure cost recovery system."

Regarding FAA's role, says Kinney, "They didn't have any direct guidance other than, ’control it at the gate.' They also felt that land-use measures were the best control."