

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT General Services Agency Airport Services	(2) MEETING DATE 7/23/2013	(3) CONTACT/PHONE Richard Howell 805-781-5205	
(4) SUBJECT Request to approve a contract with Sixel Consulting Group, Inc. for air service development consulting and recruiting air carrier services in an annual amount not to exceed \$25,000. Additional incentive payments for air carrier recruiting services will be based upon the number of new airlines or new routes recruited under the conditions specified in this contract.			
(5) RECOMMENDED ACTION It is recommended that the Board: <ol style="list-style-type: none"> 1. Approve the contract and instruct the Chairperson to sign the document, and 2. Authorize the General Services Agency Director authority to sign any extensions authorized in this agreement. 			
(6) FUNDING SOURCE(S) Federal Grant & Enterprise Fund	(7) CURRENT YEAR FINANCIAL IMPACT \$25,000.00 Enterprise Fund	(8) ANNUAL FINANCIAL IMPACT Air services consulting – \$25,000/year Air carrier recruiting services – variable based upon performance. Federal Grant & Enterprise Fund	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input checked="" type="checkbox"/> Board Business (Time Est. ___)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input checked="" type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) 19001297		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP No	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: <u>3/23/2010</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Vincent Morici			
(18) SUPERVISOR DISTRICT(S) District 3 -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: General Services Agency / Richard Howell
805-781-5205

DATE: 7/23/2013

SUBJECT: Request to approve a contract with Sixel Consulting Group, Inc. for air service development consulting and recruiting air carrier services in an annual amount not to exceed \$25,000. Additional incentive payments for air carrier recruiting services will be based upon the number of new airlines or new routes recruited under the conditions specified in this contract.

RECOMMENDATION

It is recommended that the Board:

1. Approve the contract and instruct the Chairperson to sign the document, and
2. Authorize the General Services Agency Director authority to sign any extensions authorized in this agreement.

DISCUSSION

As part of its ongoing effort to recruit new or augment existing commercial air service to the region, Airport Services has contracted for specialized consulting services in this area. On March 23, 2010 the Board authorized a contract with Sixel Consulting Group (SCG) for air service development consulting and recruiting services. As a result of this partnership, the community realized additional frequencies in flights to Los Angeles and Phoenix. Additionally the consultant has developed leads and contacts with new airlines while assisting the County in strengthening and maintaining existing relationships with our incumbent carriers. This contract expired in March 2013.

On September 20, 2012, the General Services Agency issued a Request for Proposal for Air Service Development and Recruiting Services. Proposal packages were received from AvPorts from Dulles, VA and SCG from Eugene, OR. A selection committee comprised of individuals from Airport Services and a representative from the local economic development community conducted a three phase review of the proposals. The successful bidder was SCG.

As with its previous contract, SCG has offered a reward/risk fee structure to the County. Under this proposal SCG would discount their standard service rates by 50% and provide on-call consulting services without charge. SCG would receive a recruiting fee for each new airline or new route developed for the community. The fee will be paid following commencement of the new service. The details of the fee structure for this program are discussed in the Financial Considerations below. At the direction and under the supervision of County staff, SCG may provide the following services:

1. Recruit/develop additional airlines or service routes for the community.
2. Prepare case studies for airlines.
3. Prepare and submit DOT grant application.
4. Conduct community business surveys.
5. Conduct community leisure surveys.
6. Present quarterly air traffic summaries.
7. Prepare a community video.
8. Perform airline schedules analysis for incumbent airlines.

9. Prepare presentations and attend air service conferences on behalf of the community.
10. Preparation of individual presentations to airlines at their headquarters.
11. Performance of a ticket lift survey (if necessary) for future market analysis
12. Represent the region daily in discussions and attendance at industry meetings.
13. Assist in marketing, advertising and airport awareness projects.
14. Develop and institute a pre-purchased ticket program in advance of service initiation.

Working with SCG, the San Luis Obispo market saw the arrival of larger aircraft, more flight frequencies to all our destinations, and a reduction in fares to Los Angeles. These efforts resulted in increased enplanement related revenues as shown below.

Enplanement Related Revenue	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Parking Fines	\$2,392	\$4,424	\$3,459	\$20,384
Concessions	\$423,071	\$526,426	\$533,298	\$579,262
LT Rent	\$864,962	\$936,165	\$1,029,574	\$1,104,131
Fuel Flowage & Pumped Service Charges	\$242,607	\$246,488	\$235,145	\$257,632
Parking Fees	\$725,703	\$760,910	\$780,542	\$871,666
Landing Fees	\$199,504	\$210,248	\$223,375	\$207,592
Totals	\$2,458,239	\$2,684,661	\$2,805,393	\$3,040,667
Increase (Decrease)	(\$86,342)	\$226,423	\$120,732	\$235,274
% Increase (Decrease)	-3%	9%	4%	8%

Experience with the previous contract would indicate the cost for SCG services other than any related to a recruitment incentive described below is approximately \$23,700 annually. These costs would be paid for using the Airport Enterprise Fund and is budgeted in FY 2013-14. The recruitment fee discussed below in the Financial Considerations section related to new carriers or new routes would be paid for through increased revenues generated by the increased enplanements.

OTHER AGENCY INVOLVEMENT/IMPACT

County Counsel reviewed documents for form and legal effect.

FINANCIAL CONSIDERATIONS

Standard Consulting Services:

The payments made to SCG for standard consulting services amount to an average of \$23,700 annually and are paid out of the Airport Enterprise Fund. During the previous contract period (2010-2013) the Airport paid SCG \$71,000. SCG's services have had a positive impact on the entire County through the enhanced service levels that the Airport now provides to the community. SCG has the ability to do the necessary research so that the airlines can make decisions that positively impact the Airport. For example, Sixel has been instrumental in obtaining the additional flights to Los Angeles and Phoenix as well as upgrades to the larger jets.

Most recently, SCG participated in an initiative where US Airways returned CRJ900 aircraft to the market with a First Class service for many of our connections to Phoenix. Over the period of the last contract the service enhancements resulted in the market recovering the lost capacity from 2008. The increased capacity also had a direct impact in increasing enplanement related revenues by an average of 5% per year since 2010. This revenue increase over the period allowed the Airport to build cash reserves to carry operations through the recovery period of the economic recession.

Finally, the annual Federal grant the Airport receives is based on the annual enplanement levels of the facility. SCG's efforts that have resulted in passenger growth also impacted the level of Airport Improvement Program grant funding available to SBP for capital projects.

Recruiting Bonus:

The proposed contract provides for a bonus to be paid for new airline service that SCG has recruited to the San Luis Obispo County Regional Airport. Starting on the first day of new service by a new airline currently not servicing San Luis

Obispo County Regional Airport or expansion of service by an incumbent airline to a new destination presently not serviced, Consultant will be entitled to a \$40,000 recruiting fee.

The County will have two choices to pay the recruiting fee:

1. A cash payment of \$20,000 to be paid using funds generated by local contributions or using Federal Small Community Air Service Development grant proceeds. The balance of the recruiting fee would then be payable in monthly installments beginning one year after new service begins. The monthly installment rate is \$2.00 per enplaned passenger (on the new airline or expanded service only) until the fee is paid in full or until 24 months since service inception has passed, whichever comes first. These fees will be paid out of the Airport Enterprise Fund.
2. Payments of monthly installments beginning the month the new service begins. The installment rate is \$2.00 per enplaned passenger (on the new airline or expanded service) until recruiting fee is paid in full or until 24 months since service inception has passed, whichever comes first. These fees will be paid out of the Airport Enterprise Fund.

The County is only bound to the enplaned passenger fee on flights associated with the new service. Should such service cease before the recruitment fee is paid in total, the County is not committed to pay the remainder of the fee.

For example: Hypothetically, SCG recruits new service on a 70-seat aircraft for one flight per day beginning on September 1, 2013. Upon commencement SCG will be due \$40,000 for recruiting the new service. An initial payment of \$20,000 could be made from either federal grant proceeds or local contributions. Beginning September 2014, if the flight is still in service, SCG will collect from the Airport, \$2.00 per enplaned passenger taken from revenue generated by the new flights only until the remaining \$20,000 is remitted. Or commencing October 1, 2013, a \$2.00 per enplaned passenger fee is invoiced to the Airport based on the passengers using the new flight.

Historically an enplaned passenger at SBP represents \$13.00 in revenue to the Airport. If we assume a modest 50% load factor on our hypothetical flight (35 passengers for each flight) this would represent 12,775 passengers annually or \$199,290 in new revenues. The fee collected per passenger for SCG would amount to \$25,550 the first year. The remaining \$173,740 of new revenue would go to the Airport Enterprise Fund.

RESULTS

Approval of this contract will ensure continued progress toward air service development with the potential for new service commencement in 2014.

Improved air service will result in financial benefits to the community through increased business and leisure travelers, positioning the community to be more competitive in recruiting and retaining business and injecting much needed new revenue into the Airport system. This contributes toward the countywide goal for a livable and prosperous community.

ATTACHMENTS

Attachment 1 – Sixel Contract 2013