Free market approach for airport, not tax and spend

Paul Andrews
Guest columnist

Over the past several months much has been written and many questions asked about the airport and how it "runs like a business" from an outside-looking-in perspective. In this article I'm going to approach the subject from another perspective, the inside looking out.

To really understand the Punta Gorda Airport business model it is imperative that the Ultra Low-Cost Carrier or ULCC business model be understood first.

Since being elected I have spent many hours researching the ULCC model and here's what some of my research has revealed. Ultra Low-Cost Carriers do not operate like the typical air carriers that we are most familiar with. Unlike the larger airlines, ULCC's operate on a cost-focused business strategy to keep ticket prices as low as possible. To do this they operate from secondary and regional airports, they fly point to point, focus on ancillary revenue and target cost-sensitive leisure travelers who may be priced out of the market by the higher fares of the larger airlines. The result of this approach was the creation of a highly profitable niche market. As an Allegiant spokesman once said at a conference I attended, "Our competition is the couch," and it seems to be working as evidenced by people getting off the couch and coming to Florida.

Understanding the Ultra Low-Cost Carrier business model combined with an opportunity to enter this market the question was, "Can the airport develop a business model that works with the cost focused strategy of the Ultra Low-Cost Carriers and still profit from it and benefit the community economically?" The answer was yes and the model created is based on Zero Cost Per Enplanement or Zero CPE which could also be described as "Value in Exchange."

While the Zero CPE model appears to defy conventional wisdom and it is technically correct that using this model the airline pays no fees, here's the rest of the story. Starting with the fact that costs and fees are passed through and added to the ticket price, and understanding the market the ULCC's serve, the airport charges no fees in exchange for the hundreds of thousands of passengers they bring here. These passengers in turn rent cars that include a fee the airport collects. Additionally, parking fees are collected from people who use airport parking and it would be good to point out that everyone enjoys two hours free parking before being charged. So, how is this approach working? Last year the airport generated approximately $3 million in revenue from rental cars and parking combined which breaks down to approximately $10 per passenger. As for covering additional costs and debt service associated with our expansion, our projected growth will add approximately $1 million more revenue, bringing our annual total up to $4 million, which will cover those additional costs. It would also be good to point out here that it is the Zero CPE model that defines us as a low-cost airport.

How does the model work for the community? Per the 2010 FDOT study, the economic impact of the airport on the community is estimated to be more than $143 million. Four years later, per the 2014 FDOT study, the economic impact of the airport on the community was estimated to be more than $219 million, which is a $76 million increase from the previous study.

There have been questions concerning our local demographics, safety and convenience and our market. First, our market is not necessarily based on local demographics, it's based on the demographics of the 28 cities that Allegiant currently serves. Second, jetways would be a nice addition, but they aren't required and the cost to purchase, install and maintain them would add a significant expense to the airport's operating cost. Third, convenience/safety: our boarding system, using ramps, is fully ADA compliant per Advisory Circular 150/5220-21C and during the boarding process anyone with a physical challenge will be assisted to the degree of their need.

Why we don't charge passenger facility charges or PFCs? Remember, our model is based on Zero Cost Per Enplanement and this charge goes directly to the cost of a ticket. I also want to point out that a PFC is not additional revenue that can be deposited in the bank and used for whatever the airport decides to spend it on. It's a little more complex than that. For an airport to charge PFCs it first must be approved by the FAA and the money can only be used for FAA-approved projects. PFCs have both a start date and an expiration date, which means they are time limited.

The real question that needs to be asked concerning PFCs isn't why aren't we charging them, it's why are the other airports charging them and for what projects? The concern I have with PFCs is the potential to use it as a charge and spend policy that could possibly lead to overspending based on wants rather than needs. In our case it would seem senseless to build a $100 million showcase terminal when, to stay true to our low-cost model, building a $12 million terminal meets the need. While I am no expert on the subject of PFCs I have spent some time in the manual known as Order 5500.1: Passenger Facility Charge and that manual is just the start. Remember, it doesn't take long for an airport to "cost" itself right out of the low-fare niche.

To address concerns about funds that could have been used to enhance safety, security, capacity, reduce noise and carrier competition. We have, as previously explained. We meet ADA and other safety requirements. We meet all current security requirements, we have expanded our capacity with the terminal expansion at no cost to the community, we have worked with Allegiant to reduce the noise impact and we are open to other airlines. To address discount fuel charges; we don't sell fuel to Allegiant. We do, however, charge them a hook-up fee that brought in $132,000 in revenue last year. To address the question on how does the airport "control" the cost of Allegiant flights; the airport doesn't, the market does. The Zero CPE model is what contributes to lower ticket prices and lower ticket prices help spur increased demand, growth and revenue.

Let me end with this: Taking less money out of our passenger's pockets in "pass through" fees leaves more money available to be spent in the restaurants and stores in our community.

If you are really interested in gaining a better understanding on how the airport works, I want to invite you to our budget workshop, Tuesday at Charlotte County Airport Authority, Building 313, 7375 Utilities Road (behind the sheriff's office).

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