

Office of Airport Planning and Programming 800 Independence Ave., SW. Washington, DC 20591

FEB 2 0 200i

Mr. G. Hardy Acree Director of Airports County of Sacramento 6900 Airport Blvd. Sacramento, CA 95837

Dear Mr. Acree: ##

Thank you for your submission of the County of Sacramento's Competition Plan for Sacramento International Airport (SMF). We have reviewed your competition plan for the Airport and determined that the plan is in accordance with the requirements of section 155 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR 21), Pub. L. 106-181, April 5, 2000. However, we have specified some areas where we would expect to see more information in your first update to this plan.

Section 155 of AIR 21 enacted 49 U.S.C. 40117(k) and 47106(f). These provisions require the filing of a competition plan for a covered airport seeking Federal Aviation Administration (FAA) approval of a passenger facility charge (PFC) or of an airport improvement program (AIP) grant application, beginning fiscal year 2001. The Secretary of Transportation will review the competition plans to ensure that they meet the statutory requirements and review their implementation from time to time to make sure that they are successfully implemented. The legislative history of the requirement states that "[t]he underlying purpose of the competition plan is for the airport to demonstrate how it will provide for new-entrant access and expansion by incumbent carriers. By forcing the airport to consider this, it would be more likely to direct its AIP and PFC money to that end." H. Rpt. 106-513. The FAA's Program Guidance Letter (PGL) 00-3, May 8, 2000, addressed eight features of an airport's business practices required by section 155 of AIR 21.

As you know, section 155 was enacted after the Department of Transportation published its report on *Airport Business Practices and Their Impact on Airline Competition* (October 1999) (*Airport Practices* report). That report identified a number of airport business practices that could serve as impediments to new entry or expansion of incumbent carriers at an airport and a number of best practices that airport management has followed to achieve compliance with an

airport sponsor's obligation to provide access to all aeronautical users on reasonable terms without unjust discrimination.

We note that your plan describes a number of policies and practices currently in effect at the airport, as summarized below:

- A marketing plan to encourage additional competitive air service;
- A program to accommodate air service growth by doubling gate capacity (Terminal A), planning to renovate other gate facilities (Terminal B), and allowing for future expansion of gates (Terminal A) as needed;
- A policy of using short-term (three year) preferential use leases (which can be reassigned, as needed, at the county's option) and common use access for terminal gates rather than exclusive use leases, allowing the County flexibility to accommodate new service;
- A commitment to undertake increased monitoring of the utilization of leased gates; and
- A commitment to explore alternative business arrangements to increase
 flexibility to accommodate new entrants, including use/lose provisions;
 elimination of majority-in-interest (MII) requirements; county-ownership of
 loading bridges and baggage systems; overall monitoring of facility usage;
 ensuring fair and reasonable sublease charges; ensuring a full range of
 ground handling arrangements; consideration of common use terminal
 equipment; county construction of gates; and construction and operation of
 common international gates using IATA's gate scheduling practices.

We commend you for undertaking these initiatives, which we have identified as "best practices." However, we have identified a number of areas where additional information would contribute to our understanding of your current business practices and policies. We request that you include this information in your first update to this plan.

First and foremost, please provide us with copies of the new lease and/or license agreements that were to be implemented in November 2000 (if available). In addition, please provide the following:

- Information on the terms under which an airline can become a signatory carrier at SMF;
- Information on the circumstances under which any airline requesting such status has been rejected;
- The differences in terms and conditions that apply to signatory and non-signatory carriers;
- The availability of ground handling services to new entrants and what recourse is available to air carriers dissatisfied with ground handling services available to them;

- The discretion available to a new entrant subleasing a gate to accept or decline bundled ground handling services from a signatory carrier; and
- Information on the MII provisions that apply at SMF and if they have resulted in any delayed or cancelled projects.

Additional areas of concern that should be addressed in the next update to your competition plan are discussed below. For your convenience, we have grouped the concerns according to the applicable features specified in PGL 00-3.

Availability of Gates and Related Facilities

Please explain if the County intends to keep all seven of its current common use gates in this status, or if such gates could be converted to preferential use gates. Regarding potential new gate construction, does the County intend to lease these gates or allow common use access? We noted in our Airport Practices report that common use gates facilitate the airport's assignment of gates to new airlines initiating service or to established carriers expanding service.

The competition plan states that in the next 12 months the County plans to undertake increased monitoring of gate utilization. Please describe the procedures that the County develops during this period.

The competition plan does not describe the process by which a new entrant would approach the County for information on gate availability or access to SMF. In addition, there is no discussion of how information on gate availability would be distributed to new or existing tenants at SMF. Please provide information on these topics. Our *Airport Practices* report found that entry is assisted when an airport adopts clear guidelines on what air carriers must do to gain access to an airport and expand their operations. We encourage you to consider developing additional procedures and a timeline for carriers desiring to gain access to the airport and to incorporate these in your next competition plan update.

Leasing and subleasing arrangements

In your first update to this competition plan, please thoroughly document any changes in terms, as they affect the ability of carriers to initiate or expand service at SMF, included in the new lease agreements you intended to implement by November 2000. Please also report on the status of those lease agreements.

In the portion of the competition plan dealing with longer-range plans for revised business practices, you stated that you will explore means of ensuring fair and reasonable subleasing charges and ground handling arrangements. We strongly encourage this initiative and believe the first update to the plan should

provide information on your progress in this area. Although subleasing is not yet a major issue at SMF due to available gate capacity that can accommodate a 23 percent increase in operations over 1999 levels, our *Airport Practices* report found that entry is facilitated when airport management oversees efforts by new entrants to enter into sublease arrangements. The report also found that new entrants are more likely to be treated fairly by an air carrier tenant when the airport imposes a reasonable cap on sublease fees. If your new lease is still under negotiation, there might be an opportunity to address the issue.

Gate Assignment Policies

The competition plan notes that, since the completion of Terminal A, the County has been successful in accommodating all airline requests for gates, and that County Ordinance 11.32 grants broad flexibility to the Airport in this regard. Again, please verify in your next update that this flexibility has been maintained in the new lease agreements.

Additional information on the exercise of County authority over preferential use gates would also be helpful. Specifically, please explain the procedures under which the County may reassign the preferential use gates or authorize sharing and the terms that would apply. In addition, please describe whether the County has reassigned gates during the three year lease term and under what circumstances. We encourage the County to consider the needs of a new entrant airline expressing an interest in a gate in your gate reassignment policies.

Finally, because of the interest that members of the traveling public may have in airline competitive issues at your airport, including your policy of ensuring reasonable access for new entrant airlines, we encourage you to put a copy of your competition plan, including this response, on your airport web page.

We look forward to reviewing your new lease and license agreements and the supplemental information we requested upon submittal of your first update to the competition plan. In this regard, please note that the FAA's ability to continue to approve new AIP grants or PFC applications after 2001 for SMF depends on our determination that annual updates to the Competition Plan also satisfy the requirements of section 155. A critical factor in our review of updates to SMF's plan will be the extent to which the update addresses the issues outlined in this letter.

Further, the Secretary of Transportation is required to review the implementation of an airport's competition plan from time to time. We will contact you should we decide to visit Sacramento International Airport to review implementation of your competition plan.

If you have any questions regarding this letter or the FAA's review of your plan, please contact Mr. Barry Molar, Manager, Airports Financial Assistance Division at (202) 267-3831.

Sincerely,

Catherine M. Lang

Director Airport Planning

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