J. MAC MCCLELLAN

COMMENTARY / LEFT SEAT

The FBO Problem

It's high costs for everyone involved

BY J. MAC MCCLELLAN

IF YOU WANT TO raise the blood pressure of pilots, bring up fuel costs. If you want to put that same group into orbit, mention ramp and handling fees. There is no hotter topic among pilots. That is, unless you talk to a pilot who just landed at an airport with nobody around where what passes for an FBO is locked up, and he and his passengers can't find a restroom, much less a rental car or a way through the fence. That pilot, at the moment, isn't thinking about fuel prices.

I wouldn't say the FBO business is in crisis, but it certainly is under stress. At busy airports you find gleaming facilities with every amenity pilots and passengers could wish for. At thousands of smaller fields there isn't enough business to support much more than self-service fuel and limited hours of staffing.

We're flying in a bifurcated world of busy FBOs that must recover the high costs of their operations through high fuel prices and ramp fees, and the other half that has so little business that the cost of staying open is higher than the meager income. And pilots are caught in the middle. Without a reliable network of FBOs our airplanes are nearly worthless as traveling machines.

Until the 1980s most FBOs relied on income streams from new airplane sales, maintenance, hangar rent, flight training, airplane rental, at least some charter, and fuel sales. For all sorts of reasons those FBO business segments evaporated leaving pretty much only fuel sales to fund the entire operation.

That's old news that we've all chewed on for years. But there are other more recent developments that have added to FBO operating costs that must be recovered from pilots who stop there.

One of the big impacts most of us seldom think about is the fallout of the 9/11 terrorist attacks. In the wake of that disaster every airplane and every airport became a suspect in the public's and politicians' eyes.

PHOTOGRAPHY BY ERIN BRUEGGEN

It didn't matter that the terrible damage was done by "heavy" airline jets; after the attack every airplane of any size was lumped into the threat category.

At airports with airline service, the reaction was immediate and uniform. Control of ramp access and identification of everyone on the airport side became a requirement. Fences were made more robust, gates more secure, and requirements for tracking all personnel on the "airside" more stringent.

Even at airports without scheduled airline service the rules for fencing and access and identification all increased if that facility wanted to receive government funding.

I was based at White Plains, New York, at the time, and we airplane owners all had to go through a TSA identification and screening process just to get to our airplanes. As I remember it, there were three different rounds of photos, fingerprints, and biometric data identification processes we submitted to as new and "improved" techniques were introduced.

While most of us general aviation airplane owners believe the security measures enforced after the attack were all an overreaction, that doesn't matter. The security forces — and more importantly the public — believe our airplanes can be a threat, and we're not going to win that argument.

Guess who got to pick up the costs of enforcing the new security procedures for GA? The FBO, that's who. The line crew and the rest

of the staff had to go through identification procedures, control access to the ramp, and often escort, or at least observe, pilots and passengers as they come and go to their airplanes.

The result is higher costs for the FBO with no added income. And the security apparatus has created a huge inconvenience for pilots because the airport becomes essentially unusable when the FBO is closed. I was talking the other day to a crew who forgot to call the FBO to ask for "late staffing" for their after-hours landing to drop passengers. Taxiing to the ramp, no problem. But they couldn't get through the fence. They could see their cars parked on the other side, but with the FBO closed, they had no route through the fence, and it's tall and topped with barbed wire.

Finally an airport maintenance guy came by in a pickup and agreed to ferry the people around to their cars. But he couldn't use the gate at the FBO because it wasn't authorized, or locked shut, or something, so he had to drive to a far corner of the airport to a gate he was authorized to use. It took several trips to drive the passengers to their cars that were mere yards away on the other side of the fence.

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The FBO would have kept staff at the facility — for a hefty but probably still unprofitable fee — if the pilots had remembered to call. But my point is that the cone of security that has dropped over our airports costs us all, and the best an FBO can do is pass on the costs to break even.

The other development that has helped blow up the fuel sales income stream for many FBOs is the large and continuous improvement in jet engine efficiency. Years ago you couldn't fly a business jet very far without needing to take on fuel. But more recent designs are not only much more efficient, but they also have higher maximum landing weights, so pilots can carry fuel on multistop hops, which is convenient and often cost saving but deprives FBOs along the way of income.

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Another cost-driving issue is rising expectations for what is an acceptable level of amenities at an FBO. Airport authorities who grant leases to FBO operators want, and often demand, a stylish, modern, roomy, and even plush facility. After all, the FBO is the first impression passengers will have of a city when they arrive, and nobody wants to yield any prestige to a city or state next door or across the country. And if there is more than one FBO on the field, they all have to compete to impress pilots and passengers with their service and accommodations. It's really easy to see where the high costs come from, and you get one guess who gets to pay.

In my experience the small FBO has posted a name and phone number to call if you have problems. And friendly people have always been there to help me, give me a lift to a restaurant or motel, open the hangar door, and whatever else I asked. These are people like us who love airplanes and want to be around them and to help fellow pilots. Theirs is a labor of love, but it still has to pay the rent and put food on the table, and I worry that there isn't enough flying to assure that can go on forever.

While I'm listing cost burdens on many busy airport FBOs, it's also worth mentioning private fuel farms. Some airports, over the years, gave permission for locally based airplane owners to install their own fuel facility. That's great for the operator, but there goes one more source of income for the FBO leaving the visiting pilot — or one not big enough to have his own fuel farm — to pick up the tab for fuel sales income the FBO lost out on.

My memory is too foggy to recall exactly when the first ramp fees were introduced, but it was in response to the cost impacts I've listed, plus more. With costs piling up and pilots being able to "tanker" more fuel, FBOs decided a ramp fee was the only way to recover the costs. If you buy a minimum number of gallons based on your airplane size, the fee is waived. We've all worked the numbers, and if you buy the minimum fuel at the big FBO, the cost difference between that fuel bill and the lower cost small airport nearby is about equal to the ramp fee. No surprise there.

At first, only the biggest FBOs at the largest airports charged ramp fees. Now fees are the norm at even modest FBOs at not very busy airports. There are a few busy FBOs that have managed to continue without handling fees, but the number is dwindling. And with or without ramp fees the fuel prices at the big FBOs have to be higher than the smaller airport no matter what to cover costs.

It would seem that competition would bring down FBO fuel prices and ramp fees, but not always. The problem is traffic volume. The operating costs of an FBO are not going to be cut in half just because there is another FBO on the field. If there isn't sufficient traffic, the income from each FBO goes down while the costs remain the same. And if one FBO really excels in getting the big majority of the traffic, the other loses money and goes out of business, anyway.

Having said all of that, and understanding and even sympathizing with the challenges of the FBO business, I do believe some FBO fees and charges border on gouging. Having spent most of my career living and flying in the New York City area I like to think I'm immune to sticker shock. But when I encounter a $400-plus ramp fee for a King Air at a modest-sized airport in the middle of the country, I sure think that's chutzpah if not actual gouging.

The problem is I have no way of knowing what requirements and cost burdens the airport authority has put on that FBO. The FBO has a beautiful new building that it may have been required to build, and who knows what the airport is charging for the lease. But the FAA can find out. One of the requirements of FBOs and other businesses on airports receiving federal funds is that they charge fair prices that can be justified based on operating costs. And that's oversight I hope the FAA is taking seriously.

The other half of the FBO problem is at hundreds, even thousands of airports in smaller communities there simply isn't enough traffic to support more than minimum services. The cost of running a small FBO isn't high compared to the busy airports, but when the top line of income is tiny, any cost can be too much.

The great salvation for small FBOs and we GA airplane owners who use them has been self-service fuel. But in my experience the credit card readers on the self-serve pumps are finicky and not terribly reliable. Maybe it's because the card reader device is often exposed to the weather, or the dollar volumes being charged are much higher than at a car gas station, but I've frequently had problems getting the system to operate.

But in my experience the small FBO has posted a name and phone number to call if you have problems. And friendly people have always been there to help me, give me a lift to a restaurant or motel, open the hangar door, and whatever else I asked. These are people like us who love airplanes and want to be around them and to help fellow pilots. Theirs is a labor of love, but it still has to pay the rent and put food on the table, and I worry that there isn't enough flying to assure that can go on forever.

Whether it is a glossy and swank FBO at a busy airport or a modest downhome operation in the country, we need them all. FBOs have been hit with repeated high-cost body blows over the past 20 and 30 years, and I admire those who remain. They have found various avenues to deliver the service we need and expect at the many kinds of airports that make this country's aviation system the best in the world. So the next time I launch into a tirade about FBOs I'm going to pause to remember where I would be without them. *EAA*

J. Mac McClellan, EAA 747337, has been a pilot for more than 40 years, holds an ATP certificate, and owns a Beechcraft Baron.

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June/July 2017

By Douglas Wilson

The People's Republic of AOPA

AOPA's recent actions against FBOs are misguided and target a key gateway to the aviation industry.

The Aircraft Owners and Pilots Association (APOA) has been the tip of the spear in several victories for its members since its founding in 1939. In my brief time as a pilot, those noble efforts led to product liability reform, which manufacturers such as Cessna saw as the opportunity to restart production of their venerable single-engine series and launch new platforms. More recently the pilot's medical reform act will allow a great many to remain in or return to the cockpit. Yet, AOPA's most recent call to arms against the Fixed Base Operation (FBO) community is an uncharacteristically misguided and ill-informed effort. Most troubling, it appears AOPA has turned their guns on their membership and they may not realize it.

While some may consider these strong words, they are informed by two unique and relevant perspectives. The first comes from that of a general aviation pilot. At age 16, I soloed an airplane for the first time. The following year, I obtained my Private Pilot's license- the high water mark of my young adult life. Though I've added a handful of ratings since that time, I've remained firmly in the saddle of piston-powered, light general aviation aircraft, both fixed and rotary wing. With each rating I learned more, and had great instructors. After 25 years as a pilot, I still actively fly today.

Returning to that cockpit 25 years ago, as I nervously taxied out on my first solo, I did so only after clocking out from the FBO where I then worked. Mimicking additional pilot ratings I would obtain over the years, I've likewise had the opportunity to gain experience in the FBO industry, working at different FBOs both large and small, chain and independent, on both coasts. Each time I learned more, and had great mentors along the way. I still work in the FBO industry today. As a result, my other perspective on AOPA's vilification of the FBO industry is through the eyes of a 25 year FBO employee.

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In brief, AOPA claims through the most anecdotal of evidence that FBOs are gouging light aircraft customers through extortionist-style handling fees which can only be waived by purchasing exorbitantly priced fuel. As AOPA's argument goes, FBOs are really no more than quasi-public utilities, access to airport infrastructure is a taxpayer's right, and AOPA's members must be permitted to come and go as they please. Really? Admittedly, the FBO industry shares some culpability- as do airports themselves. Consolidation hasn't helped competition in certain markets; there are always few bad apples, and always will be. Airports, stretched thin and just as desperate for funds have also ratcheted up fee structures FBOs pay, which in turn get passed along to the end user. But, before we grab the torches and pitchforks, let's apply some logic to the situation.

First, FBOs charge handling fees or require minimum fuel purchases because the operating costs at major airports are astronomically high by comparison to say, a smaller rural airport miles from a city center. In an age when courtesy still existed between business and consumer, pilots would buy a little bit of fuel- called "courtesy fuel"- at the FBO. It was the equivalent of stopping at a gas station on a long road trip when you didn't need gas, but needed to use the restroom. Courtesy dictated that the consumer made a modest purchase of some sort, to thank the proprietor for keeping the doors open, the lights on, and restroom clean. Somewhere along the way, such pleasantries died, and with it the courtesy fuel purchase at an FBO. What didn't go away for those FBOs were the aforementioned fixed costs. Instead, they increased disproportionately to inflation, and courtesy fuel went the way of the dinosaur. Today, major airports charge FBOs not only leasehold fees and fuel flowage fees, but concession fees and more. And if those mechanisms don't meet the minimum threshold for the FBO to operate at that airport, fear not friends, because some airports further charge FBOs and other concessionaires Minimum Annual Guarantees or MAGs for short. MAGs are what they sound like; if an FBO doesn't pay enough to its landlord through its leasehold fees, concession fees and fuel flowage fees, they are guaranteeing they'll make up the difference. And MAGs run into the millions of dollars for FBOs. This drives FBO fee structures, and fuel pricing.

Painful though they are, the fees airports charge lessees such as an FBO actually fund the airport, not just the Federal General Aviation Fuel Tax (FGAT) on Avgas or Federal Excise Tax (FET) on Jet fuel. FGAT and FET go into a general fund which are used for Airport Improvement Program (AIP) infrastructure projects such as runways, taxiways, approach lighting and airway and NavAid improvements. Fuel taxes do not fund private FBO construction. But, AOPA argues that airports should set aside in effect, "free parking" for general aviation aircraft or allow its members unfettered access through the fence line via the FBO at no charge. After all, their members pay fuel taxes, and this is the People's Republic of AOPA. This notion defies logic for both FBO and airport alike. What would compel an airport, which must monetize every square inch of its real estate to meet its budget, to ask its tenant base to subsidize transient customers just so they can park for free?

I pay taxes, yet when I park my car in downtown Seattle, it's not free. In fact, on a per square foot basis, it's more expensive than if I parked an airplane at nearby Boeing Field. In many cases, it's more expensive in whole dollars as well. And those parking rates are increased when the local sports teams are playing- called special event fees. (AOPA also took pains to identify some FBOs charge special event fees as something only the most evil FBOs must have concocted.) By AOPA's logic, I should be permitted to drive up to the stadium and park for free, on game day no less. If not, I can always petition the NFL to regulate its teams, and have them set aside free parking at the stadium just for me.

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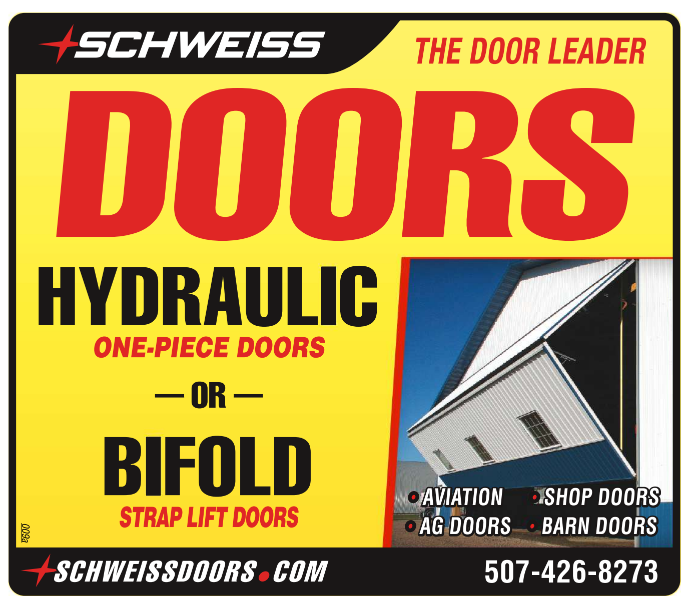

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As further proof of the ills of FBOs and their fee structures, AOPA notes such fees only seem higher at major airports where there's one FBO. Well, that's odd. Or is it? Here's a clue: Several airports which are major air carrier airports- think Boston Logan (BOS), Miami International (MIA), San Francisco (SFO)- actively deter light general aviation aircraft because of both airspace constraints and the aforementioned limitations of the airport property itself. Major airports often only set aside enough land for a single FBO. And, they charge them very high leasehold fees, MAGs or otherwise. Miami charges its FBO a $10 million MAG; San Francisco has a 28 percent concession fee.

As a brief aside, before anyone gets up in arms over the idea that light GA being "actively deterred" at major airports, keep in mind it is incredibly difficult for a bicycle to safely merge onto a highway, which curiously approximates the difference in approach speeds between light GA and airliners. Frankly, the last clearance I want to hear when flying a light GA airplane is "You're cleared to land following a Boeing triple-seven on a three mile final. Please keep your speed up and caution wake turbulence." I'm half expecting the controller to add "It was nice working with you."

So why is it smaller airports can charge so little for fuel by comparison? The fact that AOPA can't seem to put two and two together on this question is baffling to me. This is the equivalent of living in a small town in the Midwest, traveling to New York City, and wondering why it's difficult to find an inexpensive hotel room in midtown Manhattan. It's all about location- and always will be. Hence, to answer the question, yes, the fuel in Manassas, Virginia (KHEF) is less expensive than Washington Dulles (KIAD) because Manassas is further distant from Washington, D.C., the likely destination. Manassas is a viable alternative for a cost-conscious pilot; the fuel price is $4 per gallon less than Washington Dulles and it's only 14 miles away. Moreover, this is emblematic of something altogether missed by AOPA's recent article. Most major airports have at least one or two nearby airports that are geographically viable alternatives, and those FBOs would love the business. Cheaper fuel and handling fees are available nearby; one simply needs to be willing to drive or fly a few more miles.

Finally, in much the same way a good family intervention involves the phrase "You're only hurting yourself and those around you," it must be underscored to AOPA that their recent actions against FBOs are also hurting them, and their members. When I was 16, and had obtained my student pilot certificate- I got an invitation in the mail to join AOPA for $39. I did so, and was a member for years. All my pilot friends were too. I learned that like me, many learned to fly at their local FBO, as opposed to the military. As my career took me from FBO to FBO, I observed that FBOs are aviation's front door, and the individual now in the left seat of an airplane for a living, likely once worked line service at an FBO. Truly, FBOs serve as the access point into any number of aviation jobs. It's not unusual to find that the young person fueling an aircraft on the FBO's ramp is either a private pilot, an aircraft mechanic, or working on advanced ratings on those paths. And- note to AOPA- I'm betting a quite a few of those FBO employees learning to fly have an AOPA card tucked in their wallet somewhere.

The paychecks of those FBO employees are paid by the visiting pilots who pay a handling fee, purchase courtesy fuel or otherwise. Those paychecks help fund their dreams of becoming pilots, which in turn sustains an industry now starved for pilots. If AOPA's unreasonable demand for unfettered access and free parking negatively risks their livelihood and those dreams, those current and potential young members of AOPA will continue to wither. The answer isn't regulating FBOs. I'd instead encourage AOPA members and others to drive change the old fashioned way- by voting with their feet.

ABOUTTHEAUTHOR

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Margin Call

No Margin? No Fueling!

By **BAA Staff** - August 25, 2017

Back in the day, hot coffee in an FBO pilot or passenger lounge came from a supermarket can. If you were lucky, it was "fresh" – that is, sitting on the burner for less than two hours.

Today, FBOs offer specialty coffee, often freshly brewed in a single cup via a pod machine. Pilot and passenger expectations – and standards – have changed. For a modern FBO to compete successfully, it now must have an Executive Terminal complete with separate pilot and passenger waiting lounges, flight planning rooms and weather services, "quiet" rest areas for pilots, courtesy vehicles, onsite rental cars, and more, all supported by properly trained staff and proper equipment to safely handle the wide range of business turbine aircraft flying today.

You depend on a healthy network of FBOs ready to meet your aircraft whenever and wherever you land, in order to make the most efficient and effective use of your aircraft and your time. In response, the FBO industry has upped its game dramatically to meet evolving owner and pilot requirements, with improved technology, equipment, and safety standards.

But while service demands on the FBO have increased in range and cost, its two primary sources of income – fuel, plus hangar and ramp space rental – have not. Virtually all FBO operating expenses – from the cost of fuel, to airport lease rates, building capital costs, ground support equipment, personnel, training, insurance, and more – must come from those two revenue streams. So it's rather curious that the Aircraft Owners and Pilots Association (AOPA), which has worked tirelessly for many years in support of aircraft owners and pilots, has decided that some FBOs are "overcharging" for fuel – and moreover, that they are public utilities that should be monitored and their prices controlled by a federal government agency.

An FBO operates in some ways like a commercial airline terminal, with its lounges and courtesy services. But unlike an airline terminal, it is in most cases owned and operated by a for-profit entity. FBOs are businesses that must operate in the black, and must do so in a much larger and more competitive marketplace than ever before.

Today's premium-coffee-serving FBO doesn't compete only with other FBOs on its own airport – it now competes with all other FBOs nationwide. That's because modern aircraft increasingly are more fuel efficient. And while this reduces your operating costs, and enables your crew to "tanker" and purchase fuel wherever the price per gallon is lower, it can cut into an individual FBO's average per-aircraft sales. To counter that ability to tanker, most FBOs now offer some kind of network incentive discount program. That further squeezes fuel margins at all FBOs.

As a private entity, the FBO owner/operator bears the cost to build that executive terminal, as well as hangars and ramps, and pays all airport ground lease and maintenance costs. While such leases formerly ran 30 to 50 years, allowing an extended amortization of construction and improvement costs, airport authorities today rarely allow more than 15-year terms, putting additional pressure on the FBO's ROI.

That same pressure trickles down onto other capital investments as well. Whereas once there were fewer than a dozen makes and models of turbine-powered business aircraft, today there are more than 50, most requiring some model-specific ground handling equipment, all of which need to be stocked by a full service FBO. The operation also must have lavatory service carts, deicing trucks in the northern climes, tugs for towing, and ground power units, enabling your crew to heat or cool your aircraft prior to departure without firing up the engines.

In 1987, most FBOs operated profitably by covering all those costs – including personnel – with an average gross margin of $1.00 per gallon sold. Now 30 years later, with both direct and indirect costs significantly higher, that average gross margin has increased by only 30%, to $1.30/gallon.

That's about 1% per year, far lower than the average CPI increases over that same period. FBOs are doing a lot more, with a lot less.

Rather than attacking the FBO industry for its pricing, and seeking additional regulation, AOPA could better serve business aviation by renewing its lobbying efforts in support of pilots and owners, and safety and system improvements.

Because without the FBOs' ability to stay in business, there is no system. BAA

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