

CHAPTER 7 FINANCIAL FEASIBILITY

7.1 INTRODUCTION

The objective of this chapter is to identify a strategic financial plan (referred to herein as the “Financial Plan”). This chapter evaluates the Implementation Plan described in Chapter 5 of the Master Plan Update.

The Financial Plan includes an overview of the capital improvements recommended for the airport over a 20-year planning period, with emphasis on the five-year, short-term development period. This analysis will assess the financial implications of the Peninsula Airport Commission (“PAC”) undertaking the proposed projects. Further, the airport’s ability to generate future revenues sufficient to exceed projected airport operating and capital expenses are examined. The following summarizes the components of the Financial Plan:

- Eligibility for funding by the Federal Aviation Administration (“FAA”), Transportation Security Administration, Virginia Department of Aviation (“DOAV”) and local sources, including Passenger Facility Charge revenue; and
- A review of existing tenant leases, agreements and contracts;

7.2 ENABLING LEGISLATION

The PAC was created in 1946 under the authority of the Virginia General Assembly (1946 Acts of Assembly, c. 22.) as amended. The PAC is a municipal corporation and is directly responsible for the operation of the Newport News Williamsburg International Airport (“Airport”).

The PAC is composed of 6 representatives, four from the City of Newport News and two from the City of Hampton. All appointments to the PAC are made by the city council of each representing city.

7.3 FINANCIAL FRAMEWORK

The PAC’s financial operations are accounted for on a fiscal year (“FY”) basis, ending June 30 each year. As the owner and operator of the Airport, the PAC has the right to enter into agreements, leases and contracts with tenants and to grant rights, privileges and services related to the use of the airport. In exchange, tenants compensate the PAC for occupancy of airport facilities and utilization of services.

The majority of airport revenues are generated by three sources: the commercial passenger airlines, public automobile parking, and rental car companies. Other tenants and services also contribute revenue to the PAC, although to a lesser degree. The following provides a brief summary of key provisions from certain agreements, contracts or leases with these tenants.

7.3.1 Commercial Passenger Airlines

The Airport is currently served by five airlines providing scheduled commercial air service on four airline brands. Allegiant provides two weekly departures to Orlando-Sanford Airport in Orlando, FL, ExpressJet doing business as (d/b/a) the Delta Connection provides five daily departures to

Delta Air Lines hub in Atlanta, GA, Frontier Airlines provides one daily departure to its hub in Denver, CO, Air Wisconsin Airlines d/b/a US Airways Express provides six daily non-stop departures to US Airways' hub in Charlotte, NC, and Piedmont Airlines provides six daily departures to US Airways' hub in Philadelphia, PA. Additionally, PEOPLExpress Airlines intends to serve the Airport in the spring of 2013 after it receives regulatory approval from the Department of Transportation to become a certificated airline.

FY 2013 landing fees are \$0.45 per 1,000 pounds landed weight and terminal rental rates are \$27 per square foot.

7.3.2 Rental Car Concession Agreements:

There are five on-airport rental car brands available at the Airport. These brands are operated pursuant to the Airport Rental Car Concession and Lease Agreements ("Concession Agreements") between the PAC and Avis Rent A Car System, Budget Rent A Car, Enterprise Car Rental, Hertz Rent A Car and National Rent A Car ("Concessionaires") entered into on February 2, 2005 and amended in 2012. The amended Concession Agreements expire on June 30, 2013.

The Concessionaires pay monthly the greater of one-twelfth (1/12th) of its minimum annual guarantee or 10% of gross revenues to the PAC. In addition to this, the Concessionaires pay an annual terminal rental rate of \$27.00 per square foot for terminal counter and office space. The monthly rental for its ready/return spaces in the parking garage is waived for the collection of the PAC's customer facility charge ("CFC") which was increased from \$3.00 per rental day to \$4.50 per rental in March 2012 which became effective April 1, 2012. Each Concessionaire is also charged a monthly fee of \$275 for access to the overflow parking lot.

In addition to the Concession Agreements, the PAC has service facility agreements for three of the operators at the Airport: Hertz, Budget and National. Rent for those facilities is fixed at \$1,100 per month for the contract extension which terminates on the same day as the Concession Agreement (June 30, 2013).

7.3.3 Additional PAC Leases

PAC also has agreements and/or leases with the numerous other tenants at the Airport, as shown in Table 7-1.

Table 7-1
ADDITIONAL AGREEMENTS AND LEASES

Tenant	Type	Annual Rentals	Termination
Hudson	Retail	\$40,000	August 31, 2016
New Dominion	Food and Beverage	Percent of Gross	June 30, 2025
Rick Aviation	FBO Customer Service Area	\$29,760	July 31, 2014
Rick Aviation	Hangar/Services	\$35,080	July 31, 2025
Atlantic Aviation	FBO	\$229,819	March 30, 2024
Atlantic Aviation	Hangar Lease (Hangar 3)	\$84,000	Month to Month
At Aviation Fuel farm	Fuel Farm	\$69,600	Month to Month
KY Farms	Land Lease	\$42,636	December 31, 2019
Noland	Land/Hangar Lease	\$14,173	June 30, 2020
Tempus Jets	Aviation Services (Not FBO)	\$780,000	May 11, 2035
Interspace	Advertising	Percent of Gross	Aug. 3, 2012
Smithfield	Hangar Lease	\$21,578	January 1, 2033
Tuskegee	Office Space - Old Terminal	\$18,000	April 30, 2021
Firehouse	Facility Rental	\$12,319	March 24, 2018
Other Misc.	Misc/Property	\$304,106	Varies

Source: PAC

7.4 RECOMMENDED ALTERNATIVES PROJECTS SUMMARY

Based on the projected facility requirements identified in Chapter 3 and the evaluation of alternatives in Chapter 4, Chapter 5 identified a list of recommended projects and associated cost estimates. These projects will be discussed in this section.

These cost estimates are on an order of magnitude basis and are not meant to represent final bids or negotiated prices. As stated in Appendix G to this Master Plan Update, planning level cost estimates consider gross areas multiplied by a realistic unit cost factor. Actual costs will vary (perhaps substantially) from the amounts shown due to inflation, shortages of materials, limited number of bids, or other factors. Allowances have been included for each project that take into consideration contractor overhead and design costs, as well as construction administration and resident inspection costs as necessary. In addition, a contingency factor is applied, which may be as high as 20 percent (20%). This contingency factor is applied to account for variables in the scope, final design, and bids for construction.

In order to provide realistic assumptions regarding the availability of funding for the projects in the Implementation Plan, it is necessary to estimate the phasing requirements of each project based on the need for enhanced safety, security, and/or demand for the facilities during the 20-year planning period.

For the purpose of this Financial Plan, airport improvements discussed in Chapter 5 are included in one of three general project phasing periods based on an estimate of each project's estimated implementation need. Following are the project phasing periods used for this purpose:

- Short-Term Development Period – Projects anticipated to be implemented from 2013 through 2018. The Financial Plan will focus on the projects occurring in this period.
- Intermediate-Term Development Period – Projects anticipated to be implemented from 2019 through 2023.
- Long-Term Development Period – Projects anticipated to be implemented from 2024 through 2034

The projects associated with the Implementation Plan are summarized on Table 7-2, by their phasing period.

Table 7-2
RECOMMENDED CAPITAL IMPROVEMENTS

Project Number	Description
<u>Short-Term Projects (2013 - 2018)</u>	
1	Short-Term Five Year Environmental Assessment
2	Passenger Terminal Security Screening Improvements
3	Terminal Expansion for Baggage Claim
4	Apron Access Improvement, Taxiway C at Taxiway A
5	Apron Access Improvement, Taxiway D at Taxiway A
6	Apron Access Improvement, Taxiway B at Taxiway A
7	Taxiway Lighting Upgrade and Shoulder Construction
8	Oriana Road Realignment/Relocation (Phase I)
9	Power Line Relocation (Runway 2-20 Shift)
10	Obstruction Removal on the Runway 20 and 25 Ends
<u>Intermediate-Term Projects (2019 - 2023)</u>	
11	Mid-Term Five Year Environmental Assessment
12	Runway 2/20 Threshold Relocation (REILS and PAPIs)
13	Taxiway A, D, and J Improvements
14	Taxiway J Extension and Connectors
15	Taxiway D Rehab from 2/20 to the Existing Rwy 25 End
16	Brick Kiln Boulevard Realignment
<u>Long-Term Projects (2024 - 2033)</u>	
17	General Aviation Apron Rehabilitation
18	Small Aircraft Apron Rehabilitation
19	South Corporate Area Development Phase I, Aprons and 2 Hangars
20	South Corporate Area Development Phase II, Site Prep, other
21	Passenger Terminal Baggage Screening Improvements
22	Long-Term Five Year Environmental Assessment
23	Auto Parking Lot Expansion
24	South Corporate Area Development Phase I, Aprons and 2 Hangars
25	South Corporate Area Development Phase II, Site Prep, other
26	Airport Master Plan
27	Airport Roadway Improvements - Phase I, Terminal Loop Road
28	Airport Roadway Improvements - Phase II, Primary Airport Access
29	Airport Roadway Improvements - Phase III, Support Vehicle Access
30	Airport Roadway Improvements - Phase IV, Parking Garage Constr
31	Airport Roadway Improvements - Phase VI, New Local Arterial Rdwy
32	Rental Car Relocation/Expansion

Source: RS&H and Airport management.

7.5 ADDITIONAL CAPITAL IMPROVEMENTS

An additional set of capital improvements is designated as Ultimate/Strategic Initiative projects. These projects are not depicted in the short, intermediate, or long-term development periods but represent projects that PAC will undertake as the demand materializes and funding becomes available. Table 7-3 presents the capital projects included in the PAC’s Ultimate/Strategic Initiative category.

Table 7-3
ULTIMATE/STRATEGIC INITIATIVE

Project Number	Description
	Runway 7/25 Extension (9,000' including Taxiways D, J and NAVAIDS)
	Midfield Hangar Development/Relocation Phase I, Site Prep, etc
	Midfield Hangar Development/Relocation Phase II, Airfield Access
	Midfield Hangar Development/Relocation Phase III, Aprons and Hangars
	Midfield Hangar Development/Relocation Phase IV, Site Prep, etc
	Midfield Hangar Development/Relocation Phase V, Airfield Access
	Midfield Hangar Development/Relocation - Phase VI, FBO and Fuel Farm
	Midfield Hangar Development/Relocation - Phase VII, Demo Existing GA
	Air Cargo Facility - Phase I, Site Preparation
	Air Cargo Facility - Phase II, Roadway/Parking
	Air Cargo Facility - Phase III, Cargo Apron
	Air Cargo Facility - Phase IV, Relocation of ARFF Facility
	Air Cargo Facility - Phase V, Cargo Facility
	Runway 7L/25R, Phase I, Property Acquisition
	Runway 7L/25R, Phase II, Construction
	Runway 25L Extension (10,000' including Txwy D, J, AVAIDS/Easement)

Source: RS&H and airport management.

7.6 POTENTIAL FUNDING SOURCES

An airport does not typically satisfy its capital development funding needs with internal funding sources alone. Federal, state and private funding, together with airport funds and bond proceeds (supported by airport revenues and/or municipal support), are usually combined to produce the total funds required to undertake a capital project. These sources of funding include: FAA, state, private funds (tenant or third party provided), airport funds, Passenger Facility Charges (PFCs), and loans or bond proceeds. Federal sources, including Airport Improvement Program (AIP) funds, are subject to modification by Congress (the authorizing entity) or other entities having jurisdiction over a particular funding source.

The specific project eligibility criteria vary depending upon the funding source. In identifying potential sources of funds, it is necessary to examine each project element to determine its eligibility for each program or funding source. It is also important to consider the availability of funds for each funding source. The following paragraphs describe the primary external funding sources which may be available to provide funding for the recommended alternatives.

7.6.1 Federal Aviation Administration – Aviation Trust Fund

Congress began appropriating money for airport development in 1946 through the enactment of the Federal Airport Act. Since that time, Congress has passed multiple legislative measures intended to develop the national air transportation system in the United States. Congress enacted the Airport and Airway Revenue Act of 1970, which established the Airport and Airways Trust Fund (“Trust Fund”). The Trust Fund is intended to provide the primary source of funding for FAA operations, facilities, and equipment, as well as funding for the development of certain public use airports. The Trust Fund is supported by a series of aviation-related excise taxes through charges on passenger tickets, cargo waybills, and aviation gasoline and jet fuel.

The majority of the Trust Fund is supported by passenger ticket taxes paid by users of the commercial airline industry. As a result, the amount of aviation taxes generated in a given year to support the Trust Fund is dependent on the national level of commercial aviation activity and total revenues generated from these activities.

The revenues supporting the Trust Fund come from a variety of aviation user fees and fuel taxes. These tax revenues were authorized by the FAA Modernization and Reform Act of 2012 (Public Law, 112-95, 2012). The authority for these taxes has been authorized through September 30, 2015. Revenue sources for calendar year 2013 include:

- 7.5 percent ticket tax
- \$3.90 flight segment tax¹
- 6.25 percent tax on cargo waybills
- 4.3 cents per gallon on commercial aviation fuel
- 19.3 cents per gallon on general aviation gasoline
- 21.8 cents per gallon on general aviation jet fuel
- \$17.20 international arrival tax²
- \$17.20 international departure tax
- 7.5 percent “frequent flyer” award tax³
- 7.5 percent ticket tax at rural airports⁴

Since the creation of the Trust Fund in 1970, aviation excise taxes have exceeded spending commitments from the FAA’s appropriations resulting in an aggregate surplus. However, since 2001, the Trust Fund’s uncommitted balance has declined as Trust Fund revenues have been lower than projected. This trend has been exaggerated as the US economy entered an economic recession beginning in December 2007. The economic slowdown, combined with a 60 percent increase in the cost of aviation jet fuel in 2008, contributed to a net airline industry loss of \$9.5 billion according to the Airlines for America (formerly known as Air Transport Association).

The airline industry has responded to the national and global economic slowdown, as well as volatile changes in oil prices, by attempting to enhance yields by implementing a series of capacity cuts, by reductions in aircraft and employees, and by other measures, including unbundling

¹ A flight segment is defined as “a single take-off and a single landing.” The flight segment fee has been inflation adjusted (rounded off to the nearest dime) on an annual basis since January 1, 2002.

² Both the international arrival and departure taxes have been adjusted (rounded off to the nearest dime) for inflation since January 1, 1999. The rate for US flights to and from Alaska or Hawaii is \$8.60.

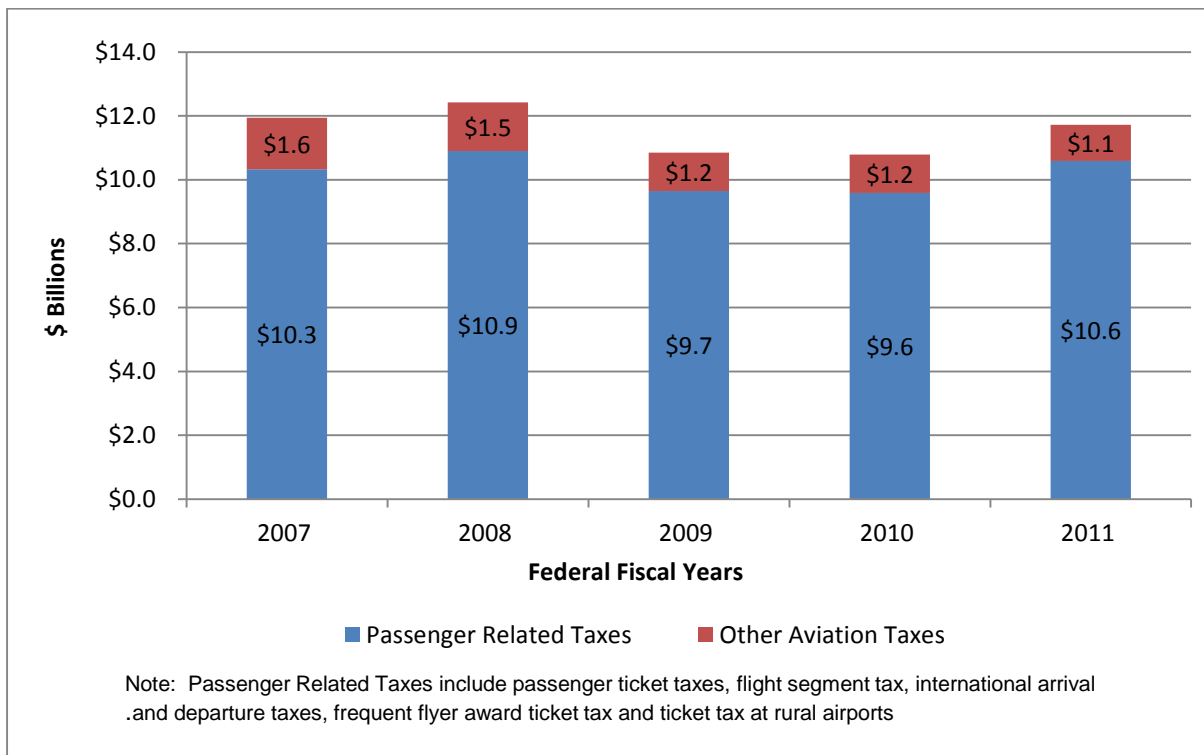
³ This tax is not limited to frequent flyers but includes all second party purchases of airline miles.

⁴ Rural airport passengers pay only the rural airport ticket tax. They do not pay the segment tax on the flight to or from the rural airport, and do not pay the general ticket tax in addition to the rural airport ticket tax.

airfares. The resulting declines in passenger traffic, aircraft operations and fuel consumption have caused revenues generated to support the Trust Fund to be approximately 4.0 percent less than estimated by the FAA in Federal Fiscal Year 2009. In Federal Fiscal Year 2009, these taxes produced approximately \$10.9 billion, which is \$1.3 billion less than estimated and contributed to a reduction in the balance of the Trust Fund from \$10.1 billion to \$9.7 billion. The lower tax collection caused a reduction in the uncommitted balance from \$928 million in 2009 to \$334 million in 2010. The FAA’s budget for 2013 estimates that total aviation excise taxes will increase to \$12.1 billion.

As shown in Figure 7-1, the total aviation excise taxes paid to the Trust Fund increased from \$11.9 billion in Federal Fiscal Year 2007 to a high of \$12.4 billion in Federal Fiscal Year 2008. Total aviation excise taxes decreased by \$1.6 billion from Federal Fiscal Year 2008 to Federal Fiscal Year 2009 but has increased to \$11.7 billion in Federal Fiscal Year 2011.

Figure 7-1
AVIATION TRUST FUND FUNDING SOURCES



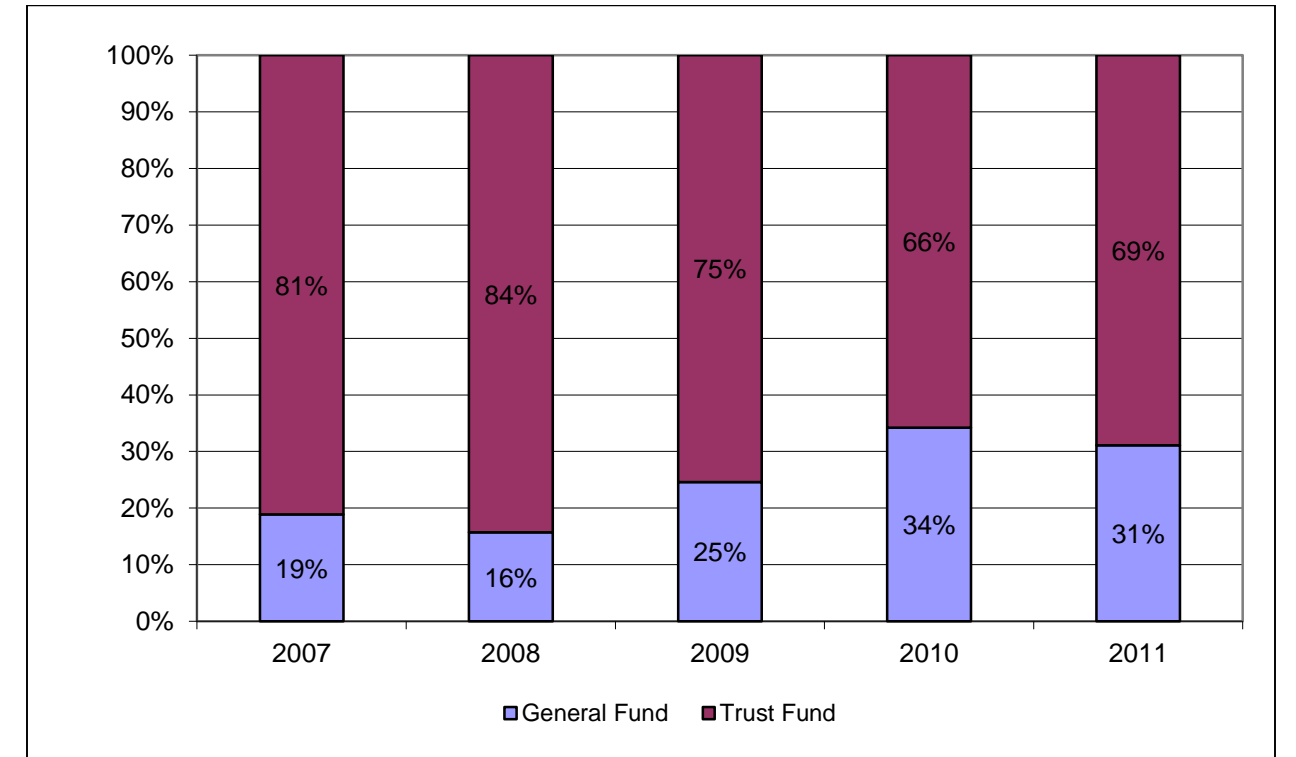
According to a report to Congress from the US Government Accountability Office, further declines in the Trust Fund’s uncommitted balance could pose future budgetary challenges for the FAA. Furthermore, if the Trust Fund revenues continue to fall below projected levels, the FAA’s ability to cover existing and future funding obligations could be jeopardized.⁵

The funding of the FAA (including FAA operations, facilities and equipment, and the Airport Improvement Program, among other things) is provided from a combination of the Trust Fund and a transfer of funds from the General Fund as appropriated by the US Congress. However,

⁵ US Government Accountability Office, Airport and Airways Trust Fund, Declining Balance Raises Concerns over Ability to Meet Future Demands. February 2011.

according to the FAA, funding appropriated from the General Fund is limited to FAA operations. As shown in Figure 8-2, the amount of funding required from the General Fund for FAA operations has ranged from approximately 16 percent of the FAA's total budget in Federal Fiscal Year 2008 to 34 percent in Federal Fiscal Year 2010. Figure 7-2 presents this historical relationship from Federal Fiscal Year 2007 through 2011.

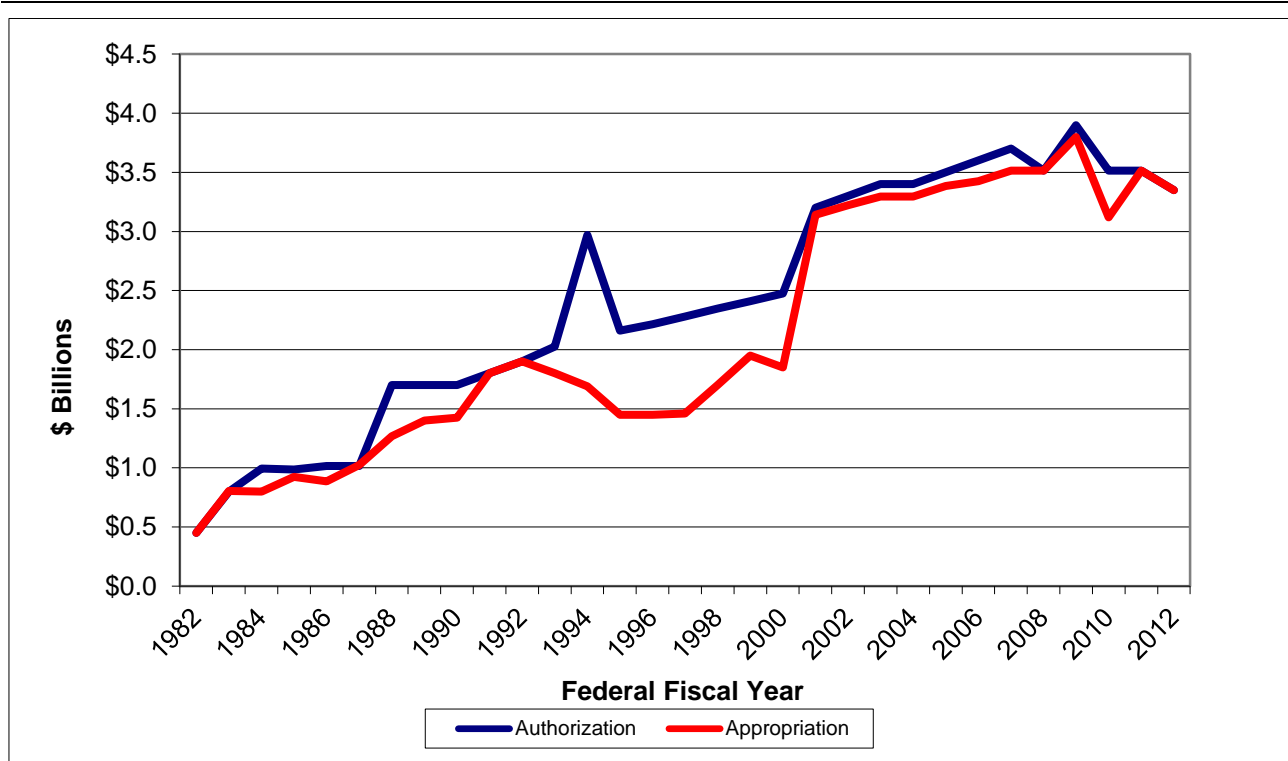
Figure 7-2
FAA FUNDING



7.6.2 Overview and Status of the Airport Improvement Program

The Airport and Airway Improvement Act of 1982 authorized the capital grant-in-aid program known as the Airport Improvement Program (AIP). The AIP is funded by the Trust Fund. Congress authorizes and appropriates funds used for eligible airport improvements which are administered by the FAA. AIP eligible projects include airport planning; airport development; noise compatibility programs (80 percent at large- and medium-hub airports); and terminal development. An airport must be included in the National Plan of Integrated Airport Systems (NPIAS) to be eligible to receive a grant from the AIP. Congress amends the Airport and Airway Improvement Act from time to time, as required, to authorize funding levels on an annual or multi-year basis. However, as depicted on Figure 7-3, Congress typically appropriates less AIP funding than the authorization allows. Since its inception in 1982, the total amount of the AIP appropriated by Congress is approximately \$7.8 billion less than its authorization authority.

Figure 7-3
HISTORICAL AIP AUTHORIZATION AND APPROPRIATION 1982-2012



In combination with an allocation from the General Fund (approximately 30 percent in 2012), the Trust Fund provides for the funding of the FAA, including the AIP. In Federal Fiscal Year 2013, the Aviation Trust Fund is estimated to provide approximately 80 percent or \$12.1 billion of the FAA's budget (\$15.1 billion).

On February 14, 2012, President Obama signed into law the FAA Modernization and Reform Act of 2012 which authorized the AIP at \$3.35 billion over a period of four years, from Federal Fiscal Year 2012 through 2015. The Act provides that certain projects that were eligible for AIP funding at the 95 percent level be reduced to 90 percent at all commercial service airports classified by the FAA as "small-hub" or smaller. Large- and medium-hub airports remain eligible for funding at the 75 percent level. As defined by the FAA, the Airport is a "small hub" airport and therefore is currently eligible for FAA funding at 90 percent for AIP eligible projects. It should be noted there is a distinction between the eligibility and justification of a project to be funded by the AIP.

Although the future of the AIP is not guaranteed, federal funding for public use airports has been provided since 1946. Therefore, for the purpose of this Master Plan Update, it is assumed that the AIP, or some form of it, will continue to be available and a viable capital funding option available to the PAC during the 20-year planning period.

7.6.3 Obligations and Assurances

The Airway and Improvements Act requires the PAC to provide certain assurances that it will comply with federal law and regulation in using FAA AIP grant funds and in operating the Airport. The PAC must comply with the sponsor assurances in the performance of grant agreements for airport development, planning, and noise compatibility. The sponsor assurances are required to be

submitted as part of the project application by the PAC for requesting funds under the provisions of Title 49, USC, subtitle VII, as amended.

There are 39 sponsor’s assurances with which the PAC must comply as a condition to accepting AIP grants from the FAA. Among these requirements is the assurance that the PAC will make the Airport available as a public use airport on fair and reasonable terms without unjust discrimination (Assurance 22); permit no exclusive aeronautical rights for use of the Airport (Assurance 23); and maintain a fee and rental structure, consistent with Assurances 22 and 23, for facilities and services being provided that will make the Airport as financially self-sustaining as possible under the circumstances existing at the Airport (Assurance 24).

7.6.4 Market Potential of Underutilized Airport Property

The market potential of approximately 479 acres of underutilized airport property was analyzed and a Conceptual Development Program (CDP) was developed. The observations, findings, recommendations, and CDP are provided in **Appendix F, Non-Aviation Development** and summarized within this section. The market analysis employed for this analysis was both a “top down” approach that evaluates potentials associated with demographic and economic basis and trends; and, a “bottom up” approach that gives greater weight to location, real estate characteristics, orientation to other existing or planned development in proximity to the airport, changes to the market environment that may result from the master plan update, and resulting airport policy decisions. This analysis concluded that there were six categories of projects that would constitute a significant development on Airport Property, and carry with them potentially significant economic and fiscal benefits. A summary of project categories and associated square footage/acreage is listed below:

Development Type / Use	Square Footage (GBA)
• Research and Development / Technology	350,000 – 500,000
• Advanced Manufacturing / Light Industrial	300,000 – 400,000
• Warehousing and Distribution	250,000 – 300,000
• Solar Installation	90 acres (18 MW)
• Commercial / Retail	300,000 – 500,000
• Storage	50,000 - 75,000

The Conceptual Development Program depicts a range of Gross Building Area for catalyst projects of between 1,250,000 and 1,775,000 square feet; to be phased in and absorbed over the planning period of 20-years.

7.7 AIRPORT IMPROVEMENT PROGRAM – (AIP)

Grants administered by the FAA through the AIP represent a critical capital funding source for the PAC to implement the projects recommended in this Master Plan Update. Within the existing AIP authorization, there are two major sub-categories which are generally used for improvement programs: entitlement grant and discretionary grant programs. These sub-categories are discussed below.

7.7.1 Passenger Service Entitlement Grants

One of the most common types of federal funding available for commercial service airports in the US is passenger entitlement grants funded through the AIP and administered by the FAA. Entitlement grants are essentially an allocation of certain AIP funds based upon an airport's total number of enplaned passengers in a given year. Only airports defined by the FAA as "Primary Airports" (those having 10,000 or more enplanements) are eligible to receive AIP Entitlement Grants. The Airport is classified by the FAA as a Primary Airport. Pursuant to Vision 100, in any federal fiscal year in which Congress appropriates funding for the AIP program at the \$3.2 billion level or more, Primary Airports receive apportionments based on the following number of enplaned passengers:

- \$15.60 for each of the first 50,000 enplanements
- \$10.40 for each of the next 50,000 enplanements
- \$5.20 for each of the next 400,000 enplanements
- \$1.30 for each of the next 500,000 enplanements
- \$1.00 for each enplanement in excess of 1 million passengers

For the purpose of determining passenger entitlements grants apportioned in 2013, the FAA uses the number of passengers enplaned at each airport in calendar year 2011. The Airport enplaned 530,713 passengers in calendar year 2011. Based on 530,713 enplaned passengers in calendar year 2011, the Airport will receive \$3,579,635 in AIP passenger entitlement grants for Federal Fiscal Year 2013. Total AIP passenger entitlements at the Airport are projected to be \$18.1 million during the short-term development period (2013–2018) based upon the passenger forecast in this report and provided the AIP program continues to be funded at the \$3.2 billion level or higher.

Actual final amounts of AIP passenger entitlement grants may be affected by the total amounts periodically authorized and appropriated by Congress for this program, as previously shown in Figure 8-3. Entitlement grants may be carried over from one year to the next, used to pay the principal component of the eligible debt service on bonds issued to finance eligible projects, and, among other provisions, future allocations may be earmarked for repayment of current expenditures, if the FAA concurs and issues a Letter of Intent (LOI).

7.7.2 Cargo Service Entitlement Grants

While originally designed to provide a source of reliable funding for commercial service airports that provide passenger service, changes to the AIP have also resulted in entitlement set asides for cargo service airports. Certain airports are designated by the FAA as cargo service airports. According to FAA Order 5100.38C, *Airport Improvement Program Handbook*, a cargo service airport is any airport that, in addition to any other air transportation services that may be available, are served by aircraft providing air transportation of only cargo with a total annual landed weight of more than 100 million pounds. Landed weight includes the weight of aircraft transporting only cargo intrastate, interstate, and in foreign air transportation. An airport may be both a commercial passenger service and cargo service airport.

Based on FAA calendar year 2011 data, 125 airports transported more than 100 million pounds of air cargo and were classified as cargo service airports; however, the Airport is not currently designated as a cargo service airport and does not currently receive cargo service entitlement grants. It is assumed that the Airport will not receive cargo service entitlements during the 20-year planning period.

7.7.3 Discretionary Grants

Discretionary grants are based upon commitments to certain eligible development projects at the option of the FAA. Discretionary grants are available for use by most types of public use airports. Discretionary grant funding comprises two types of funds: set-aside funds and remaining funds. The set-aside funds are allocated for noise compatibility and military airport programs. The remaining discretionary grant funds are distributed to airports based on a priority system for projects that enhance safety, improve security, meet standards, and add capacity, in that order. The FAA has established the National Priority System (NPS) to assist in deciding how to allocate AIP discretionary grants according to these priorities.

In the past, the PAC has been successful in competing for AIP discretionary grants, receiving approximately \$7.7 million in such grants from 2005 through 2009. AIP discretionary grants will continue to be an important source of project funding for the recommended projects. However, as with AIP entitlement grants, AIP discretionary grants may be affected by the future reauthorization of the AIP. In such event that discretionary grants are not available for funding the capital projects, such projects will be postponed until such time that discretionary grants or other available funding becomes available. Assumptions regarding the use of AIP entitlement and discretionary grants are described below.

AIP Eligibility and Funding Assumptions

All AIP grants are subject to approval by the Secretary of Transportation and periodic appropriation by Congress. As a small-hub airport, certain project work elements may be eligible for AIP funding at the 90 percent level. The *Airport Improvement Program Handbook* sets forth project eligibility guidelines for AIP funding. Table 8-4 presents the anticipated AIP eligibility of each of the proposed capital projects. As depicted on Table 8-4, the total AIP eligibility of the recommended projects is estimated to be approximately \$97.8 million, or 60.2 percent of the period's total cost.

Due to the demand for AIP grant funds and the uncertainty regarding the future of the AIP, the Airport may not be able to secure AIP funding at the maximum level for each recommended project. The Financial Plan has assumed the PAC will receive approximately \$3.0 million in annual entitlements through the short-term development period.

Table 7-4
RECOMMENDED ALTERNATIVE ELIGIBILITY AND COSTS

Project Number		Project Cost	% AIP Eligible	Total AIP Eligibility
<u>Short-Term Projects (2013 - 2018)</u>				
1	Short-Term Five Year Environmental Assessment	\$500,000	90%	\$450,000
2	Passenger Terminal Security Screening Improvements	10,200,000	90%	9,180,000
3	Terminal Expansion for Baggage Claim	10,000,000	90%	9,000,000
4	Apron Access Improvement, Taxiway C at Taxiway A	200,000	90%	180,000
5	Apron Access Improvement, Taxiway D at Taxiway A	400,000	90%	360,000
6	Apron Access Improvement, Taxiway B at Taxiway A	600,000	90%	540,000
7	Taxiway Lighting Upgrade and Shoulder Construction	2,500,000	90%	2,250,000
8	Oriana Road Realignment/Relocation (Phase I)	6,700,000	90%	6,030,000
9	Power Line Relocation (Runway 2-20 Shift)	8,700,000	90%	7,830,000
10	Obstruction Removal on the Runway 20 and 25 Ends	1,000,000	90%	900,000
Total Short-Term Projects		\$40,800,000		\$ 36,720,000
<u>Intermediate-Term Projects (2019 - 2023)</u>				
11	Mid-Term Five Year Environmental Assessment	\$500,000	90%	\$450,000
12	Runway 2/20 Threshold Relocation (REILS and PAPIs)	12,000,000	90%	10,800,000
13	Taxiway A, D, and J Improvements	7,900,000	90%	7,110,000
14	Taxiway J Extension and Connectors	7,700,000	90%	6,930,000
15	Taxiway D Rehab from 2/20 to the Existing Rwy 25 End	10,750,000	90%	9,675,000
16	Brick Kiln Boulevard Realignment	1,300,000	90%	1,170,000
Total Intermediate-Term Projects		\$40,150,000		\$36,135,000
<u>Long-Term Projects (2024 - 2033)</u>				
17	General Aviation Apron Rehabilitation	\$3,800,000	90%	\$3,420,000
18	Small Aircraft Apron Rehabilitation	800,000	90%	720,000
19	South Corporate Area Development Phase I, Aprons and 2 Hangars	7,700,000	0%	0
20	South Corporate Area Development Phase II, Site Prep, other	11,000,000	0%	0
21	Passenger Terminal Baggage Screening Improvements	11,600,000	90%	10,440,000
22	Long-Term Five Year Environmental Assessment	500,000	90%	450,000
23	Auto Parking Lot Expansion	900,000	0%	0
24	South Corporate Area Development Phase I, Aprons and 2 Hangars	15,100,000	0%	0
25	South Corporate Area Development Phase II, Site Prep, other	5,000,000	0%	0
26	Airport Master Plan	1,000,000	90%	900,000
27	Airport Roadway Improvements - Phase I, Terminal Loop Road	4,600,000	90%	4,140,000
28	Airport Roadway Improvements - Phase II, Primary Airport Access	3,700,000	90%	3,330,000
29	Airport Roadway Improvements - Phase III, Support Vehicle Access	1,700,000	90%	1,530,000
30	Airport Roadway Improvements - Phase IV, Parking Garage Constr	11,600,000	0%	0
31	Airport Roadway Improvements - Phase VI, New Local Arterial Rdwy	2,200,000	0%	0
32	Rental Car Relocation/Expansion	200,000	0%	0
Total Long-Term Projects		\$ 81,400,000		\$ 24,930,000
TOTAL AIRPORT MASTER PLAN CAPITAL PROJECTS		\$ 162,350,000		\$ 97,785,000

Source: RS&H, January 2013

Compiled by Newton & Associates, Inc.

As depicted on Table 7-5 it is estimated that approximately \$18.1 million in AIP entitlements and \$10.1 million in AIP discretionary grant funding will be used to fund the capital projects during the short-term development period. This funding level will provide approximately 69.1 percent of the funding for the capital projects included in the short-term development period. As previously

discussed, in the event that discretionary grants are not available for funding the capital projects, such projects will be postponed until such time that discretionary grants or other available funding becomes available.

7.7.4 Facilities and Equipment Program

The FAA is funded by four primary appropriation accounts: AIP; Facilities and Equipment (F&E); Operations and Research; and Engineering and Development. The F&E Program is the principal means for modernizing and improving the air traffic control and airway facilities. Certain projects may be eligible for funding under the F&E Program or the Air Traffic Organization Account (ATO). However, for the purpose of this Financial Plan, it is assumed that funding under the F&E will be unavailable for the capital projects.

7.8 VIRGINIA DEPARTMENT OF AVIATION

The Virginia Department of Aviation (“DOAV”) provides financial and technical assistance to eligible airport sponsors for the planning, design and construction of airports and aviation facilities. State entitlement funds are provided to airports with commercial service based on each airports’ pro-rata share of total enplanements. Discretionary state funding is available to all airports located in the Commonwealth of Virginia.

The PAC has been awarded \$40,000 to fund certain capital projects included in the short-term development period. As depicted on Table 7-5, approximately \$9.4 million in additional state grant funding will be needed to fund the recommended capital projects during the short-term development period. State grants in-hand together with anticipated state grants will provide approximately 23.2 percent of the funding for the projects included in the short-term development period.

7.9 THIRD PARTY/TENANT FINANCING

Funding by third parties or tenants is a viable source for certain of the proposed projects included in the long-term development period and ultimate/strategic initiative projects. This source of funding is facility related and directly reduces the amount that must be funded by the PAC. Third party/tenant funding is a particularly important arrangement to pay the cost of proprietary facilities that may be ineligible for FAA participation such as hangars, air cargo facilities and non-aeronautical development.

Third party/tenant funding may take many forms depending upon the particular facility to be constructed. The third party or tenant may either pay for facilities directly or pledge to pay debt service on municipal or special facility bonds issued by the sponsor to construct the proposed facilities. One option in this regard would be to request proposals for development of the air cargo facility presented in the ultimate/strategic initiative to determine the level of interest in the industry to pursue development opportunities, A proposal could be structured to allow non-tenant investors the opportunity to build and lease facilities which would otherwise be funded by the tenant or the owner. This would require a minimal initial capital investment from the PAC and other local sources and, if properly arranged, could result in the development of a first class air cargo distribution facility.

Table 7-5
SHORT-TERM CAPITAL PROJECTS FUNDING PLAN

Project Number	Description	FFY	Project Cost	AIP Eligibility		AIP		Total AIP	State		Local
				%	Amount	Entitlement	Discretionary		In-Hand	Anticipated	
1	Short-Term Environmental Assessment	2013	\$500,000	90.0%	\$450,000	\$450,000	\$0	\$450,000	\$40,000	\$0	\$10,000
2	Passenger Terminal Security Screening Improvements	2014	10,200,000	90.0%	9,180,000	5,000,000	4,180,000	9,180,000	0	0	1,020,000
3	Terminal Expansion for Baggage Claim	2015	10,000,000	90.0%	9,000,000	540,000	4,353,085	4,893,085	0	5,106,915	0
4	Apron Access Improvement, Taxiway C at Taxiway A	2015	200,000	90.0%	180,000	180,000	0	180,000	0	0	20,000
5	Apron Access Improvement, Taxiway D at Taxiway A	2015	400,000	90.0%	360,000	360,000	0	360,000	0	0	40,000
6	Apron Access Improvement, Taxiway B at Taxiway A	2015	600,000	90.0%	540,000	540,000	0	540,000	0	0	60,000
7	Taxiway A Lighting Upgrade and Shoulder Construction	2015	2,500,000	90.0%	2,250,000	1,750,000	500,000	2,250,000	0	0	250,000
8	Oriana Road Realignment/Relocation (Phase 1 and 2)	2016	6,700,000	90.0%	6,030,000	2,500,000	0	2,500,000	0	3,870,000	330,000
9	Power Line Relocation	2017	8,700,000	90.0%	7,830,000	6,780,000	1,050,000	7,830,000	0	450,000	420,000
10	Obstruction Removal on the Runway 20 and 25 Ends	2017	1,000,000	90.0%	900,000	0	0	0	0	0	1,000,000
Total			\$40,800,000		\$36,720,000	\$18,100,000	\$10,083,085	\$28,183,085	\$40,000	\$9,426,915	\$3,150,000

- Notes:
- Annual AIP Entitlement Estimated at \$3.6 million.
 - Total AIP Entitlements for Five Years Estimated at \$18.1 million.
 - AIP Discretionary funds consistent with Airport planning.
 - "Airport PFC Reimbursements" are for prior PFC approved expenditures.
 - "PFC PAYGO" is for projects being funded with PFC income.
 - State Funds consistent with Airport Planning @ \$2 million per year.

It should be noted that third party or tenant facilities would likely be financed by the users. Alternatively, financing would be through the use of industrial development bonds or special facility bonds (subsequently described in a later section of this chapter). Such types of financing would likely require a long-term lease (up to 30 years) to allow for the third party or tenant's recovery of its investment in the facility. The PAC would collect land rental payments and benefit from the residual value of the facility reverting to the PAC upon expiration of the lease.

The funding plan assumes that no third party/tenant funding will be required for the capital projects recommended in the short-term development period. However, the PAC may consider inviting third party/tenant participation to fund certain hangar development in the long-term and design and construction of an air cargo facility in exchange for a long-term facility lease or management contract.

The PAC may manage the quality and services provided in improvements funded by third party/tenants through the Minimum Standards, which establish the minimum facility and service requirements for private businesses wishing to provide commercial aeronautical services at the Airport, as well as to insure that those who provide commodities and services are not exposed to unfair or irresponsible competition.

7.10 NON-TRADITIONAL FUNDING SOURCES

Other potential non-traditional federal, state and regional funding sources the PAC might consider include agencies dealing with surface transportation, soil conservation, forestry, multi-modal economic development, renewable energy or waste management. Because of the uncertain nature of these sources of funding, the Financial Plan assumes that the PAC will not receive any such funds, although the PAC could thoroughly examine these potential sources to fund the recommended projects should the opportunity arise.

Table 7-5 presents the local funding plan for the short-term development period projects. As depicted, the PAC's local funding requirement for the short-term development period is estimated to be \$3.2 million.

7.11 LOCAL FUNDING REQUIREMENT – SHORT-TERM CAPITAL PROJECTS

PAC will be required to provide for the remaining funding requirement after the application of all AIP grants, state grants and tenant/third party financing (if any) to complete the proposed improvements. Several local funding sources have been identified and are hereinafter described in the short-term local funding requirement. In the case of financially self-sufficient airports with positive cash flows and accumulated cash reserves, a portion of the local share may be funded by such cash flows and reserves.

The short-term local funding requirement includes two primary mechanisms the PAC may utilize to provide for the local share required to complete the capital projects in the short-term development period: Passenger Facility Charges (PFCs) reimbursements and PFC pay-as-you-go. In addition to these funding sources, descriptions of other alternative funding sources including Customer Facility Charges (CFCs) and the issuance of municipal bonds (or other types of borrowing) are provided for projects included for the intermediate-term and long-term planning periods as well as the ultimate/strategic initiative projects.

7.12 FAA APPROVED PASSENGER FACILITY CHARGES

Passenger Facility Charges (PFCs) are available to fund certain qualified capital development projects at commercial passenger service airports. The Aviation Safety and Capacity Expansion Act of 1990 (ASECEA) authorized the Secretary of the Department of Transportation to grant public agencies that control commercial service airports enplaning more than 2,500 annual passengers the authority to impose a PFC for each passenger boarding an aircraft (enplanement) at a given airport. The purpose of the PFC program is to preserve or enhance safety, security, capacity, competition, and mitigate the impact of aircraft noise. The ASECEA provides that PFC revenues may only be used for projects approved by the FAA including: payment of all or part of allowable project costs; for an airport’s AIP matching funds; to augment AIP funded projects; and for payment of debt service or financing costs associated with eligible airport development bonds.

Under existing authorization by Congress, airport sponsors may impose a PFC at a level of up to \$4.50 per enplaned passenger. These charges are collected by the air carriers when tickets are sold and are later remitted to the airport, less a handling fee of \$0.11 per PFC collected. In FY 2009, the PAC collected approximately \$1.3 million in PFCs, based on 292,086 revenue passenger enplanements⁶ and a PFC level of \$4.50.

PAC has previously received approval on three PFC applications to impose and use a PFC at the Airport. Table 7-6 provides a summary of the PAC’s existing PFC collection and use authority.

*Table 7-6
PFC SUMMARY*

PFC Application Number	Approved for Collection	Approved for Use
06-01-C-00-PHF	\$552,500	\$552,500
10-02-C-00-PHF	18,910,908	16,658,408
10-02-C-01-PHF	(3,044,199)	(791,699)
12-03-C-00-PHF	12,090,644	3,348,944
TOTAL	\$28,509,853	\$19,768,153

The PAC is authorized to collect a PFC through March 1, 2022 based upon passenger enplanement, PFC collection levels and PFC-eligible project costs when PFC Application 3 was submitted to the FAA. However, given the current level of enplaned passengers and PFC collections, the PAC will likely satisfy its collection authority after the charge expiration date previously determined.

7.13 CUSTOMER FACILITY CHARGES

Rental car CFCs are another type of airport revenue similar to the PFC. The primary distinction between a CFC and a PFC is that a PFC must be approved by the FAA. A CFC is a charge paid by rental car customers per the number of contract days that a vehicle has been rented. The CFC can be negotiated and implemented contractually between the airport and the rental car companies. Generally, CFC revenue is limited to funding rental car facilities and operating costs at the airport; rental car related capital expense (debt service); and rental car related operating and maintenance expenses.

⁶ Revenue passenger enplanements are those enplanements that pay for their tickets and exclude passengers using “zero fare” tickets including employee travel and frequent flyer tickets. Revenue passenger enplanements are estimated to be approximately 93 percent of total passenger enplanements.

The PAC increased its CFC from \$3.00 per rental day to \$4.50 per rental in March 2012 which became effective April 1, 2012. Based on a current estimate of approximately 200,000 rental days and a \$4.50 CFC level, the PAC would generate approximately \$900,000 in CFC revenues each year. If additional funds are needed, the CFC could be increased to meet the additional demand.

7.14 PAC’S REMAINING FUNDING REQUIREMENT

As depicted on Table 7-7, the PAC will be able to fund the local remaining funding requirement with reimbursements from PFC revenues and from PFCs collected on a project submitted in prior PFC application (PFC PAYGO).

Table 7-7
SHORT-TERM CAPITAL PROJECTS LOCAL FUNDING PLAN

Project Number	Description	Local	Airport PFC Reimbursement	PFC PAYGO
1	Short-Term Environmental Assessment	\$10,000	\$10,000	\$0
2	Passenger Terminal Security Screening Improvements	1,020,000	0	1,020,000
3	Terminal Expansion for Baggage Claim	0	0	0
4	Apron Access Improvement, Taxiway C at Taxiway A	20,000	20,000	0
5	Apron Access Improvement, Taxiway D at Taxiway A	40,000	40,000	0
6	Apron Access Improvement, Taxiway B at Taxiway A	60,000	60,000	0
7	Taxiway A Lighting Upgrade and Shoulder Construction	250,000	250,000	0
8	Oriana Road Realignment/Relocation (Phase 1 and 2)	330,000	330,000	0
9	Power Line Relocation	420,000	420,000	0
10	Obstruction Removal on the Runway 20 and 25 Ends	1,000,000	1,000,000	0
	Total	\$3,150,000	\$2,130,000	\$1,020,000

7.15 AIRPORT CASH FLOW AND RESERVES

Airport cash flow refers to the collection of revenues earned or received, and payment of expenses incurred during a fiscal year. The ability of the Airport to use positive cash flows and unrestricted reserves as a source of funding depends on its ability to generate airport revenues in excess of the cost of operating, maintaining and improving the Airport.

Surplus annual cash flows are deposited by the PAC into one of several unrestricted reserve accounts. The PAC can accumulate any such annual surpluses and any investment interest in the reserve accounts and use a portion of the available balances to pay a part of the development costs for the capital projects.

At the end of FY 2012, the PAC had approximately \$5.6 million in unrestricted cash and cash equivalents. Use any of these funds to pay the local funding requirement of the capital projects in the short-term development period has not been included in the funding assumptions.

7.16 ISSUANCE OF PUBLIC (MUNICIPAL) DEBT

Proceeds from the issuance of municipal bonds are a common source of funding for airport sponsors in the United States. To obtain these funds, airports seek access to the capital markets on reasonable terms for short, intermediate and long-term financing needs. The most commonly used financing instruments to fund major airport capital development programs are tax-exempt or tax-advantaged municipal debt, including General Obligation Bonds, General Airport Revenue Bonds, Industrial Development Bonds, and Special Facility Bonds. The following is a brief summary of these primary types of municipal funding instruments. Please note that not all of these types of instruments may be suitable given PAC's existing financial position, but may be viable funding alternatives in the future.

7.16.1 General Obligation Bonds (GO Bonds)

GO Bonds are among the first municipal financing instruments used for airport development. GO Bonds are a debt of the issuing agency and are supported by its taxing power. Since these bonds are backed by the full faith and credit of the issuing agency, they often require voter approval. As a rule, GO Bonds generally have the lowest interest rates when compared with other municipal financing instruments and typically do not require the establishment of backup reserve funds or coverage to enhance their creditworthiness. GO Bonds used for airport financing increases the issuing agency's outstanding debt, and thus reduces the amount of credit available to finance other community needs.

7.16.2 General Airport Revenue Bonds (GARBs)

The first GARBs used to support airport development were issued in the late 1950's. These bonds were supported by revenues from the commercial airlines operating at an airport that entered into long-term agreements in which they agreed to pay fees and charges necessary to pay debt service and the operating and maintenance (O&M) expenses remaining after deducting revenue from non-airline sources. These agreements also restricted the airport sponsor's ability to undertake capital developments without airline approval and thus, except in unusual circumstances, long-term, residual agreements with the commercial airlines that guarantee a specific level of fees and charges are no longer required to support GARBs. The use of GARBs for airport development purposes has created a market demand for tax-favored investments, and today GARBs are the primary instrument used to finance airport development. Unlike GO Bonds, GARBs have no tax support, but are secured by a pledge of either all revenues of the airport (gross revenue pledge) or, more commonly, net airport revenues remaining after the payment of O&M expenses (net pledge). The creditworthiness of the bond issuer will determine the interest rate and the credit enhancements required to sell the GARBs.

7.16.3 Industrial Development Bonds (IDBs) and Special Facility Bonds (SFBs)

IDBs are used by governmental entities for projects eligible under the Internal Revenue Code in conjunction with other incentives such as local and state tax abatement and/or tax credits to create a package that will attract businesses to these zones and provide employment opportunities for its residents. IDBs are issued by a governmental entity which then loans the proceeds to a private company to provide financing methods for economic development projects. The IDBs are secured by the payment on a promissory note by the private company. As the issuer, the governmental entity acts as a conduit for the private company and has no liability. SFBs are issued by airport sponsors to encourage specific developments. Their use originated in the 1960's as a means to finance needed facilities for airlines upon reasonable terms and conditions. The facilities

constructed with the proceeds are leased by the issuer to the airline for a period that coincides with the term of the SFBs. The SFBs are not a debt of the issuer, but are supported solely by the revenues from the project they were issued to construct, and the sole responsibility of the issuer is to use its best efforts to generate rental revenue from the project.

7.16.4 Short-Term Financing Instruments

In certain instances, the issuance of municipal bonds is not the most cost-effective way to provide for the local funding requirement at an airport. There are several different short-term financing instruments available to an airport sponsor to provide short-term capital project funding. Airport sponsors use short-term financing instruments to bridge the gap between when expenses occur and when revenues are available. Short-term instruments often have maturities of less than one year.

The most commonly used short-term financing instruments used to provide bridge funding include Revenue Anticipation Notes, Bond Anticipation Notes, General Obligation Notes and Commercial Paper. Following is a brief summary of the types of short-term municipal funding instruments.

Revenue Anticipation Notes (RANs)

RANs are issued by an airport sponsor or municipality in anticipation of future revenues generated by the improvement being financed. RANs may be used to provide short-term funding for projects that are entirely self-sufficient, the revenues of which would reimburse the airport sponsor for providing the capital needed to fund the improvement.

Bond Anticipation Notes (BANs)

BANs are issued by airport sponsors to provide for bridge or interim financing in anticipation of a future long-term bond issuance. Therefore, BANs are secured by a municipality or airport sponsor's ability to issue long-term municipal bonds.

General Obligation Notes

Similar to GO Bonds, general obligation notes are issued with the full backing of the issuing municipality. General obligation notes are used for the same purposes as RANs and BANs.

Commercial Paper and Letter of Credit (LOC)

Perhaps the most popular instrument available to an airport to provide for short-term financing is the use of commercial paper backed by a Letter of Credit (LOC). This instrument involves the sale of commercial paper in the competitive financial markets by a commercial paper dealer in the name of the airport sponsor or municipality. The commercial paper is sold under the guarantee of a bank LOC. Commercial paper is typically issued in \$100,000 increments to fund needed airport improvements. The bank LOC is not expected to ever actually be drawn upon.

7.17 SUMMARY

Following is a summary of the Financial Plan including the assumptions used to fund the capital projects recommended in the short-term development period and pro forma cash flows:

- PAC's financial structure, current leases with major tenants, and historical revenues and expenses were examined to project future operating revenues and operating expenses;
- The total estimated cost of the short-term development period capital projects is \$40.8 million, as presented in Table 7-5
- The funding for the proposed capital projects during the short-term development period is as follows:
 - FAA AIP \$28.2 million
 - State 9.5 million
 - PFC 3.2 million
- The total estimated cost of the intermediate and long-term capital projects is \$121.6 million, as presented in Table 7-2.
- It is recommended that PAC closely monitor the Federal AIP and the DOAV funding program for any changes that may enhance or adversely affect the assumed future funding of the recommended projects;
- The staging of the recommended projects is flexible. PAC should proactively monitor/revise these projects on an annual basis to ensure projects are not implemented before the appropriate demand levels; and
- The Financial Plan assumes the PAC will continue to be successful in receiving AIP discretionary and state funding at the levels depicted on Table 7-5

Given the assumed levels of funding provided herein, the PAC would be able to fund the short-term development period capital projects (with the exception of projects 9 and 10) from the available PFC revenues as discussed in this chapter.