

Chapter 7

FINANCIAL PLAN

7.1 INTRODUCTION

This chapter discusses the financial implications to the City of implementing the initial phase (2003-2007) of the recommended Capital Improvement Program for the future development of the Paso Robles Municipal Airport. The historical and forecast revenues and expenses for operation of the Airport are analyzed to ascertain the ability of the Airport Enterprise Fund to fund the requirements to implement Phase I of the Capital Improvement Program from operating sources. The cash flow analysis of projected revenues and expenses is presented, and existing and future sources and uses of revenues to implement the short-term (through 2007) development projects are discussed.

7.2 CAPITAL IMPROVEMENT PROGRAM

The Phased Development and Capital Improvement Program for the Paso Robles Municipal Airport and the estimated costs of the airport improvements recommended as part of the Airport Master Plan Update are presented in Chapter 6. Phase I of the Capital Improvement Program (2003-2007) identifies \$12.9 million in development projects at the Airport. The \$12.9 million includes the cost of acquiring about 33 acres for Runway 1-19 runway protection zones. Land acquisition will be subject to actual appraisals and negotiations with existing landowners.

In addition, the President signed into law the Aviation and Transportation Security Act on November 19, 2001 establishing the Transportation Security Administration (TSA) within the U. S. Department of Transportation. While TSA activities have been concentrated on the larger commercial service airports since its inception, the TSA is required to develop security requirements for general aviation airports. The TSA published *Security Guidelines for General Aviation Airports* in May 2004 and notes that the guidelines are not regulatory and the recommendations should not be considered mandatory. The guidelines provide options, ideas and suggestions for the airport sponsor, tenants and users in an attempt to provide consistency across the Nation with regard to security at general aviation facilities. The intent of the guidelines is to provide a living document that will continue to be refined with input from the various stakeholders Nationwide. Security recommendations for the Paso Robles Municipal Airport could include additional fencing, lighting, access control systems, signs, law enforcement actions, and security procedures that could have a cost impact on the development of the Airport as the TSA continues to update and refine the recommendations for general aviation airports.

Of the Phase I projects totaling \$12.9 million, projects totaling \$3.8 million will not be eligible for Federal Aviation Administration (FAA) Airport Improvement Program grants. The projects totaling \$3.8 million are primarily for infrastructure development of the northwest non-aviation commercial/industrial area of the Airport, recommended in the *North Area Conceptual Development Plan*, totaling \$3.1 million. The aircraft wash rack estimated to cost \$138,400 will not be eligible for Federal grant funding, and another \$535,700 for hangar development are assumed to be financed from other sources.

Phase I projects eligible for FAA Airport Improvement Program (AIP) grants total \$9.1 million. Of the total \$9.1 million, the City's local match for these grant funds are estimated to total \$156,006 after recognition of the State's contribution of 5 percent of total Federal grants.

In order to implement the initial phase of the Capital Improvement Program, an estimated \$73,600 will be required from the City on an annual basis through 2007 to provide the local share of Federal and State grants and an additional \$3.3 million to fund projects that are not eligible for FAA grants. When combined, the total City requirement is estimated to be over \$852,600 on an annual basis through 2007.

7.3 FINANCIAL FEASIBILITY ANALYSIS

The purpose of the financial feasibility analysis is to summarize the annual historical operating results of the Paso Robles Municipal Airport Enterprise Fund to provide a basis for assessing the ability of the Enterprise Fund to meet the requirements for funding future capital projects from operating sources. The Enterprise Fund is operated to account for Airport operations that are financed and operated in a manner similar to private business enterprises. The financial analysis is intended to indicate order-of-magnitude strategies and is presented in Table 7-1 as a statement of historical revenues and expenses from Fiscal Year 1997 through Fiscal Year 2002 and projected through Fiscal Year 2007.

7.3.1 Historical Revenues and Expenses

The historical revenues and expenses from Fiscal Year 1997 through Fiscal Year 2002 are presented in Table 7-1. Historically, the major source of revenues from airport operations has been from the ground leases that accounted for an average of 66 percent of total revenues from Fiscal Year 1997 to 2002. Revenues from aircraft landing and tiedown fees accounted for 8 percent of revenues from Fiscal Year 1997 to 2002. The estimated 17 percent of property taxes assessed on airport tenants and based aircraft accounted for 6 percent of total annual revenues until Fiscal Year 2002 when the taxes accounted for 23 percent of total revenues. The remaining 18 percent

Table 7-1

HISTORICAL AND FORECAST OPERATING REVENUES AND EXPENSES
Paso Robles Municipal Airport
1997-2007

	Historical						Forecast				
	1997	1998	1999	2000	2001	2002 ¹	2003	2004	2005	2006	2007
OPERATING REVENUES											
Aircraft Landing and Tiedown Fees	57,076	27,543	15,203	60,777	21,612	7,386	15,000	17,500	20,000 #	22,500 #	25,000
Fuel Flowage Fees	21,024	14,163	13,402	28,364	3,219	1,941	1,000	1,000	1,000	1,000	1,000
Day Receipts	5,053	4,620	5,642	2,582	808	500	1,500	2,000	2,500	3,000	3,500
Ground Leases	252,393	266,974	274,976	310,670	279,680	282,857	242,000	248,000	255,000	260,000	265,000
Farming Operations	8,511	10,410	10,612	16,698	18,650	17,927	8,000	8,000	8,000	8,000	8,000
Annual State Grant	25,000	29,371	0	0	0	50,000	10,000	10,000	10,000	10,000	10,000
Interest Earnings	16,955	32,906	17,349	8,453	33,958	9,781	12,000	16,000	20,000	23,000	25,000
Property Taxes -- Aircraft	20,643	21,251	21,988	27,334	22,993	112,681	114,200	115,700	117,200	118,700	120,000
Other	1,285	3,200	360	2,667	3,744	647	0	0	0	0	0
Subtotal	407,940	410,438	359,532	457,545	384,664	483,720	403,700	418,200	433,700 #	446,200 #	457,500
OPERATING EXPENSES											
Salaries and Wages	64,651	64,644	65,220	64,732	66,530	85,302	90,000	93,000	96,000	99,000	102,000
Supplies and Services	20,354	24,567	20,009	29,712	15,375	20,277	27,000	28,000	29,000	30,000	31,000
Utilities	16,985	16,681	14,858	16,155	17,319	26,697	28,000	30,000	32,000	34,000	36,000
Maintenance	2,713	13,623	11,833	9,658	48,345	26,178	21,000	21,000	21,000	21,000	21,000
Professional Services	11,371	37,285	117,517	89,254	75,346	28,105	10,000	10,000	10,000	10,000	10,000
Insurance	0	0	8,075	5,815	12,156	500	8,000	8,000	8,000	8,000	8,000
Debt Service -- Interest	41,242	38,572	35,686	32,592	29,250	25,643	21,800	17,600	13,100	8,200	3,000
Allocated Overhead	49,100	49,200	53,900	55,600	28,942	33,981	30,000	32,000	34,000	36,000	38,000
Miscellaneous	4	18,782	62,365	103,260	2,245	0	0	0	0	0	0
Subtotal	206,420	263,354	389,463	406,778	295,508	246,683	235,800	239,600	243,100 0	246,200 0	249,000
OPERATING SURPLUS (DEFICIT) AVAILABLE TO FUND THE CAPITAL IMPROVEMENT PROGRAM											
	201,520	147,084	-29,931	50,767	89,156	237,037 0	167,900 0	178,600 0	190,600 #	200,000 #	208,500

1. City of Paso Robles Fiscal Year 2002

SOURCE: City of Paso Robles and Aries Consultants Ltd.

of revenues have come from fuel flowage fees and day receipts, farming operations, the annual State grant, interest earnings on cumulative funds in the Airport Enterprise Fund, and other miscellaneous revenues.

Historically, salaries and wages accounted for over 22 percent of total expenses from Fiscal Year 1997 through 2002. Professional services accounted for an average of 20 percent of total expenses. Allocated overhead from other City Departments accounted for an average of 15 percent of total expenses, and the interest expense on a \$680,000 note to the City accounted for 12 percent of total expenses. Supplies and services accounted for 7 percent of total expenses while utilities, maintenance, insurance and miscellaneous accounted for the remaining 24 percent of total annual expenses.

Total revenues from all sources averaged over \$417,000 on an annual basis from Fiscal Year 1997 through 2002 while total expenses averaged over \$301,000 annually during the same time period.

7.3.2 Projected Revenues and Expenses

The financial projections presented in Table 7-1 and discussed in this section have been prepared on the basis of information and assumptions set forth in the text. These rely on information and assumptions from the sources indicated without verification of such data. Although the information and assumptions used constitute reasonable bases for preparation of the forecasts, the achievement of any financial projection may be affected by fluctuating conditions and is dependent on the occurrence of future events that cannot be assured. Therefore, the actual results achieved may vary from the projections, and such variation could be material.

The projected revenues and expenses of the Airport Enterprise Fund from Fiscal Year 2002 to 2007, presented in Table 7-1, reflect a set of assumptions under which there would be no major changes or improvements in tenant/user rates and charges except as noted.

The financial analyses for the Paso Robles Municipal Airport have been prepared based on the following data and assumptions:

- The financial information is based on the City's Fiscal Year July 1 through June 30 unless otherwise noted.
- All sources of income derived from airport uses will be credited to the Airport Enterprise Fund and will be used only for maintaining, operating and improving the Airport as required by Federal Grant Assurances.

- The Aviation Activity Forecasts presented in Chapter 2 form a reasonable basis for this financial analysis.
- Federal Aviation Administration Airport Improvement Program grants have not been considered as part of this financial analysis.
- Depreciation expenses have not been included in operating expenses. (It should be noted that Federal Aviation Regulations specifically exclude the computation of depreciation or use allowance on improvements and development donated or borne directly or indirectly by the Federal government.)
- No major capital improvement projects will be undertaken during the forecast period other than those presented in the Capital Improvement Program.
- The projected dollars are based on 2003 dollar values.
- The development of facilities recommended in this report will be developed and managed to produce the maximum net revenue to the City consistent with providing reasonable levels of public facilities and services.
- All present leases and agreements will continue in force with no major changes in their financial provisions other than existing rental adjustments already provided for.
- There will be no debt service associated with the \$5 million contribution by the City General Fund in 2000 for Airport projects.

7.3.2.1 Operating Revenues

- Aircraft landing fees include those commercial activities with aircraft over 20,000 pounds. The California Department of Forestry pays landing fees for those aircraft used in fire fighting activities. The City's tiedown parking aprons, including transient aircraft parking for a day or overnight, are administered by an airport tenant who pays one-half of the tiedown fees and day receipts collected to the City. Revenues from these sources are projected to increase to \$25,000 by 2007, primarily through landing fees associated with operations by the California Department of Forestry.
- Fuel flowage fees are paid on fuel brought onto the Airport. Based on existing leases and agreements, fuel flowage fees from other sources will not be recognized by the City until 2008.

- It is assumed the City will continue to expand existing leaseholds and attract new tenants to the Airport thereby increasing revenues from ground leases.
- Farming operations will continue to fluctuate based on actual conditions. Revenues from this source are projected based on an average of historical revenues and an anticipated decrease in crops over the next several years.
- The City will continue to receive the annual State grant for operations and maintenance.
- Interest earnings will continue to be credited to the Airport Enterprise Fund based on accumulated funds.
- Portions of the property taxes assessed on airport tenants and aircraft will continue to be credited to the Airport Enterprise Fund.

7.3.2.2 Operating Expenses

- Salaries and wages include the services of the Airport Manager and one maintenance services employee. Salaries and wages are projected to increase at an estimated 3 percent annually.
- The basis for utility expenses increased when the new terminal-office building became operational in 2001. Utility expenses are projected to increase at an estimated 6 percent annually as the City continues to develop the Airport including new access roads.
- Facilities, equipment and vehicle maintenance fluctuated over the five-year historical period and are projected to remain constant in the short-term as no major maintenance and repair projects are anticipated.
- Professional services are fees paid for services outside City sources; e.g., surveying, attorneys' fees, storm water permitting. These fees are projected to remain constant in the short-term.
- Debt service includes the interest on an outstanding \$680,000 note to the City's General Fund. The interest debt will be retired in Fiscal Year 2007.
- Other expenses include the allocated overhead from other City Departments.

Based on the projected operating results of the Airport Enterprise Fund, close to \$1 million will accumulate in the Airport Enterprise Fund through Fiscal Year 2007.

When added to the \$400,000 reserves in the fund, an estimated \$1.4 million will be available to fund the Phase I Capital Improvement Program projects.

7.4 CASH FLOW ANALYSIS

The preceding financial analysis was prepared to provide a general cash flow of available funds from airport operations to fund the City's matching share of Federal and State grants. Based on the financial analysis, an estimated \$1.4 million will be available from the Airport Enterprise Fund to fund the initial phase of the Capital Improvement Program.

The estimated \$1.4 million will be sufficient to provide the City's share of matching Federal grants estimated to be \$294,406 through 2007, including the aircraft wash rack that is not eligible for Federal grant funding. Surplus revenues will not be sufficient to fund the remaining \$3.1 million required to initiate development of the Northwest area of the Airport for nonaviation commercial/industrial development. Additional contributions from the City will be required totaling about \$502,000 on an annual basis to fund the total short-term airport development projects through 2007. In addition, it should be noted that land acquisition costs included in the Capital Improvement Program will be subject to actual appraisals and negotiations with the existing landowners.

The funding of the Phase I Capital Improvement Program will also be based on the City receiving FAA Airport Improvement Program grants totaling about \$2.1 million on an annual basis through 2007 and assumes that Caltrans grants will be available for 5 percent of the total FAA grants through the same time period.

All revenues from the Airport operations are credited to the Airport Enterprise Fund. These funds are expended to operate the Airport within an annual budget approved by the City Council. Surpluses in the Airport Enterprise Fund can be used to offset an operating deficit or pay for unexpected expenses. Depreciation expenses are accounted for in the operating revenues and expenses presented in Table 7-1 as noted previously. Depreciation expenses are included in the audited financial statements, however, the depreciation expense is a non-cash expense and the money is retained in the Airport Enterprise Fund. In addition, the principal expense on the \$680,000 note to the City's General Fund is deducted from the Airport Enterprise Fund after all expenses have been met. The principal for the note payable to the General Fund will be retired in 2007.

7.5 SOURCES AND USES OF FUNDS

The major source of revenues for funding capital improvement projects on the Airport during the historical five-year period has been from City General Fund contributions

for airport development projects and FAA Airport Improvement Program grants for eligible projects.

7.5.1 Federal Aviation Administration Airport Improvement Program Grants

The FAA Airport Improvement Program was established by the Airport and Airway Improvement Act of 1982 and provides funding for airport planning and development. The Airport and Airway Trust Fund, which was established by the Airport and Airway Revenue Act of 1970, provides the revenues used to fund Airport Improvement Program projects. Taxes or user fees are collected from the various segments of the aviation community and placed in the Trust Fund. The 1982 Act, as amended, authorizes the use of monies from the Airport and Airway Trust Fund to make grants under the Airport Improvement Program. The Airport Improvement Program assists the development of a nationwide system of airports by providing funding for airport planning and development projects at airports included in the NPIAS.

The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), signed into law in 2000, provided a multi-year program for funding under the Airport Improvement Program through September 30, 2003, and many of the provisions of AIR-21 were brought forward in the 2003 Reauthorization of the Program. The Reauthorization of the Airport Improvement Program entitled Vision 100—The Century of Aviation Reauthorization Act (Vision 100) was presented to the President and signed into law in December 2003. Vision 100 provides a multi-year program for funding under the Airport Improvement Program with increases in funding through fiscal year 2007 and provides Federal funding for 95 percent of an eligible project with a requirement for a 5 percent local match.

The Paso Robles Municipal Airport is eligible for Airport Improvement Program grants as a general aviation airport. Projects eligible for FAA Airport Improvement Program grant funding at the current level of 95 percent are identified in Table 6-1. The City's current (2005-2010) Airport Capital Improvement Plan submitted to the FAA includes \$6.5 million of capital improvement projects for the Airport.

The Vision 100 legislation also provides for general aviation entitlement grants with a maximum of \$150,000 annually for fiscal years in which the total amount of FAA Airport Improvement Program funding is \$3.2 billion or more. Based on the Vision 100 legislation, \$3.4 billion, \$3.5 billion, \$3.6 billion, and \$3.7 billion have been authorized for Fiscal Years 2004, 2005, 2006, and 2007. The Paso Robles Municipal Airport is eligible for these annual entitlement funds. General aviation entitlement funds provide the City the ability to prioritize use of these funds with a greater focus

on the needs of the Airport and the Community and eliminate the need to compete for general aviation discretionary funds for projects that may not have a high priority for FAA Airport Improvement Program funding.

The Paso Robles Municipal Airport has received FAA grant awards beginning in 1977 with the most recent grant award of \$59,540 received in 2004 to replace the aircraft rescue and fire fighting equipment as presented in Table 7-2. Grants totaling \$8.6 million have been awarded for projects at the Airport over the 27-year historical period, averaging \$321,000 annually. Phase I of the recommended Capital Improvement Program will require an estimated \$2.1 million in FAA grants on an annual basis over the initial four-year program. It may be unrealistic to plan for this total in FAA grants as Airport Improvement Program funds are expended to meet the security and other requirements of the Transportation Security Administration.

7.5.2 State of California, Division of Aeronautics

The State of California provides four financial assistance programs. The first is the Department of Transportation, Division of Aeronautics annual grant of \$10,000; the second allows the California Transportation Commission (CTC) to allocate funds to match Federal Airport Improvement Program (AIP) grants for airport and aviation purposes; the third is the acquisition and development grants administered by the State Transportation Improvement Program (STIP); and the fourth is the Airport Loan Program.

The State provides annual non-matching \$10,000 grants to airports that have not been designated as a “reliever” or “commercial service” airport by the FAA that may be used for both capital improvements and maintenance and operations. The annual grant may be accumulated for up to five years, or a maximum of \$50,000, and used as matching funds for an FAA AIP grant.

State funds can be allocated by the CTC to match an FAA AIP grant once an airport sponsor has accepted the AIP grant from the FAA. The State match is available to airports that have been designated as a general aviation or reliever airport by the FAA. Only those projects that are included in the State’s Capital Improvement Program are eligible to receive matching grants. The State match will be an amount equal to 5 percent of the AIP grant.

Any publicly-owned, public-use airport may apply for a State acquisition and development grant through a structured approval process. Grant projects are evaluated and prioritized by an evaluation matrix and an airport rating form with runway maintenance projects receiving the highest priority for funding. An Airport’s request may range from a minimum of \$10,000 to a maximum of \$500,000 per fiscal year.

Table 7-2

FEDERAL AVIATION ADMINISTRATION GRANT HISTORY
Paso Robles Municipal Airport

<u>Year</u>	<u>Description</u>	<u>Grant Award</u>
1977	Overlay runway 13-31	\$ 168,000
1978	Construct parallel taxiway A and medium intensity taxiway lights on taxiway A, C and D	382,000
1980	Reconstruct east-west part of taxiway B, industrial taxiway and tiedown apron	260,389
1983	Tiedown apron and lights	192,000
1984	Overlay runway 1-19	672,000
1986	Runway 19 safety area and fencing; Precision path indicators (PAPIs); Medium intensity runway lights on runway 13-31	490,000
1987	Overlay taxiway E; Reconstruct north-south portion of taxiway B; taxiway signage; Relocate and replace beacon	411,908
1988	Construct north tiedown area, helipad and lighting	379,399
1989	Construct parallel taxiway A (C and D); Medium intensity taxiway lights; Reconstruct apron	657,000
1990	Overlay taxiway C, D and E; Lighting	388,000
1993	Land Acquisition to the north; Construct holding apron; Repair runway 1-19	811,500
1996	Overlay runway 13-31	652,985
1999	Replace high intensity runway lights on runway 1-19	283,457
1999	Airport Master Plan Update	90,000
2000	Overlay runway 1-19; Security fencing and gates	2,058,728
2001	Airport Land Use Plan (Entitlement Grant)	150,000
2003	Surface rehabilitation (slurry seal)	554,500
2004	Replace ARFF equipment	59,540
	Total FAA Grants 1977-2004	<u>8,661,406</u>

SOURCE: City of Paso Robles

The State Airport Loan Program provides financial assistance in the form of loans, repayable over a period not to exceed 25 years. The interest rate is based on the most recent issue of State of California bonds sold prior to the issuance of a loan agreement. Loans can be obtained for matching funds (i.e., a FAA AIP grant) and for revenue-generating facilities (i.e., hangars and fuel facilities).

The City receives the \$10,000 annual grant from Caltrans and the 5 percent matching share of FAA Airport Improvement Program grants.

Caltrans Division of Aeronautics funds were reduced in 2002 and 2003 to help reduce the Statewide budget deficit. It is not known at this time when, and to what extent, monies will be available to fund the Caltrans Division of Aeronautics Programs.

7.5.3 City of Paso Robles General Fund

Financing airport improvements by direct appropriation from the City's general fund may be the most realistic method of financing development not eligible for FAA AIP grants or for matching the 0.25 percent City requirement for grants as such financing may eliminate any interest payments. For airport capital improvements, general fund appropriations would be made through the regular budgeting process or as a special budget item on an as-required basis.

General fund appropriations can be justified by the City on the basis that the Airport provides certain direct economic and social benefits to the Community and local taxpayers as well as the possessory interest, personal property and other tax increments generated by airport tenants and users.

The City provided General Fund monies totaling close to \$5 million for development projects at the Airport in 2000. These projects included \$2.7 million for design and construction of the new Airport terminal-office building, acquisition of the Aero Services lease agreement, and acquisition of and tenant improvements for the Kyodo facility.

An estimated \$3.1 million of Phase I of the Capital Improvement Program will be primarily for infrastructure projects to develop the Northwest nonaviation commercial/industrial properties on the Airport, as presented earlier. The City will determine when development of these additional properties is desirable in order to augment other commercial/industrial properties within the City.

7.5.4 Private Financing

The importance of the Airport to local economic development is enhanced with active involvement on the part of both public officials and the private business community.

The City may require that all exclusive-use facilities such as hangars, fueling facilities, tiedowns, fixed base operations, and other commercial aviation facilities be provided and financed by the tenant. The City would receive ground rental while the leaseholder would receive the gross revenues and be responsible for the operational expenses and debt service obligation. Private financing places the burden of financing on the tenant while increasing the value of the Airport, which will, in turn, add to its economic attractiveness.

7.6 FINANCIAL CONSIDERATIONS OF THE PHASE II AND PHASE III CAPITAL IMPROVEMENT PROGRAM

Beyond Phase I, it is assumed that development of the Airport will proceed according to the priorities proposed in the recommended Capital Improvement Program. It is also assumed that the implementation of the Phase II and Phase III projects will be arranged as the demands for facilities occur, and the City identifies the financial resources to implement the recommended projects through FAA Airport Improvement Program grants, State grants and loans and the financial capability of the City to provide the local matching share of project funding.

It should be recognized that the financial feasibility of projects in Phase II and Phase III of the Capital Improvement Program will be linked to the overall management of the Airport in the short-term, the provisions of existing leases and agreements in effect, funding levels and participation rates of Federal and State grant programs and the periodic review by the City of its lease policies and rates and charges policies.