Airport Area Economic Development

Strategic Planning Session 3

Economic Development and Funding the Airport Future

March 25, 2014

CITY OF PRESCOTT
ARIZONA

Session 2 Review

- Projected Airport revenues and expenses for 2014 are in balance (+$6,000) but severely constrained by insufficient funding
- Capital expenses requiring a local match (transfer-in from the City) will put the Airport in the red
- The Airport is implementing cost-center accounting steps to better manage/monitor revenues and expenses
- A state loan program is being pursued to make site improvements for two “inside the fence” parcels
- Airport/Hangar debt was retired in 2013 eliminating an average annual expense of $443,000/year (since 2005)

- Lack of available “inside the fence “ land for economic development opportunities and Airport revenue generation
- Key priorities for the Airport are financial sustainability and infrastructure maintenance
- Airport and Airport Area challenges
  - Pursue and obtain air passenger service
  - Runway extension, strengthening, and protection
  - Land acquisition for buffer (up to 290 acres)
  - Construct new Terminal, Control Tower (only if required by FAA), and Aircraft Rescue Firefighting Facility (ARFF)
  - Create new/improved Airport surface transportation access
  - Strengthen working relationships with FAA and key local stakeholder groups

- Airport and Airport Area opportunities
  - Creating a live, work, and play community
  - Attracting hotels/resorts (1,000 to 1,300 rooms)
  - First class conference/meeting facility (300 to 550 people)
  - Business attraction
  - Construct 1 or 2 spec buildings
  - “Large parcel” availability

Nexus of Airport and Airport Area Initiatives and Prescott's Economic Future

- Total Estimated Employment within the City (2014) is 37,938 (nearly equal to City population – 41,146).
- *Employment data indicate nearly 20,000 jobs in the City are filled by non-Prescott residents*
- City's Estimated Median Household Income is $39,355
- Total estimated employment (2014) in the Airport Area is 2,400 with an Estimated Median Household Income of $41,910
- Aggregate Effective Buying Income in the Airport Area is $24.5 million
- Average employment growth in the Airport Area is projected at 200 to 250 new jobs per year and will be the fastest-growing employment zone in the City
- Projected household income growth in the Airport Area is $10.4 million/year
- The economic development focus on the Airport Area is timely as the area can be a growing contributor to Prescott's more general economy which includes the SR 69 retail corridor and historic downtown

Airport Facilities Management and Funding Priorities

- Maintain and Protect Airport (Exhibit 1)
  - Runway protection/land acquisition
  - Pavement preservation
  - Airfield lighting and signage upgrades
  - Shifting Taxiway “Charlie” (to meet FAA standards)
  - Obstruction mitigation
  - Review and updating of leases
- Review, Update and Implement Airport Master Plan (Exhibit 2)
  - Assessing air passenger service potential
  - New terminal evaluation
  - Primary runway extension/strengthening
  - New/rebuilt Air Traffic Control Tower (if required)
  - Improved Airport highway access
  - New Aircraft Rescue Firefighting facility

Maintain and Protect Existing Airport

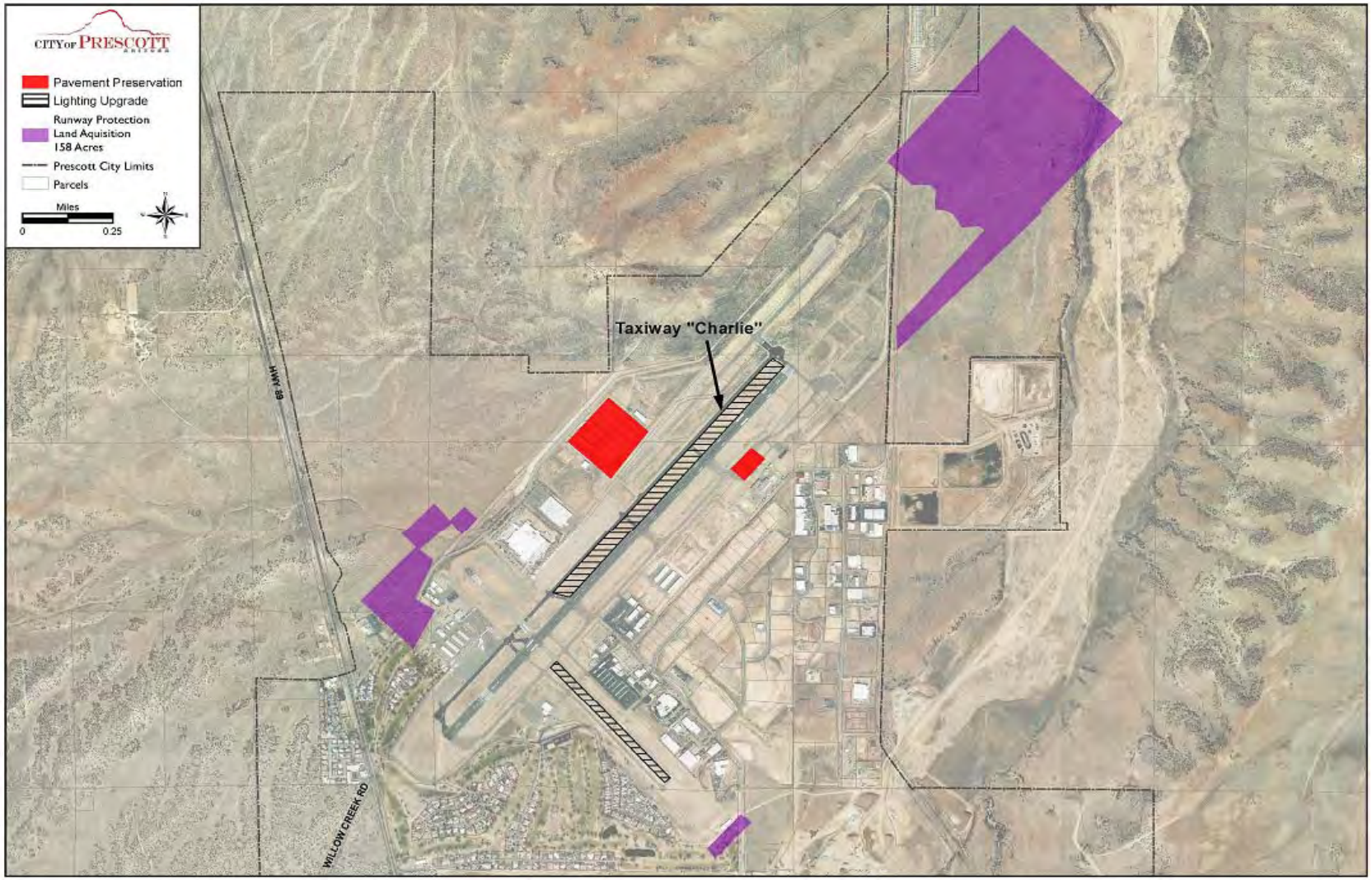


Exhibit 1

Current Airport Master Plan

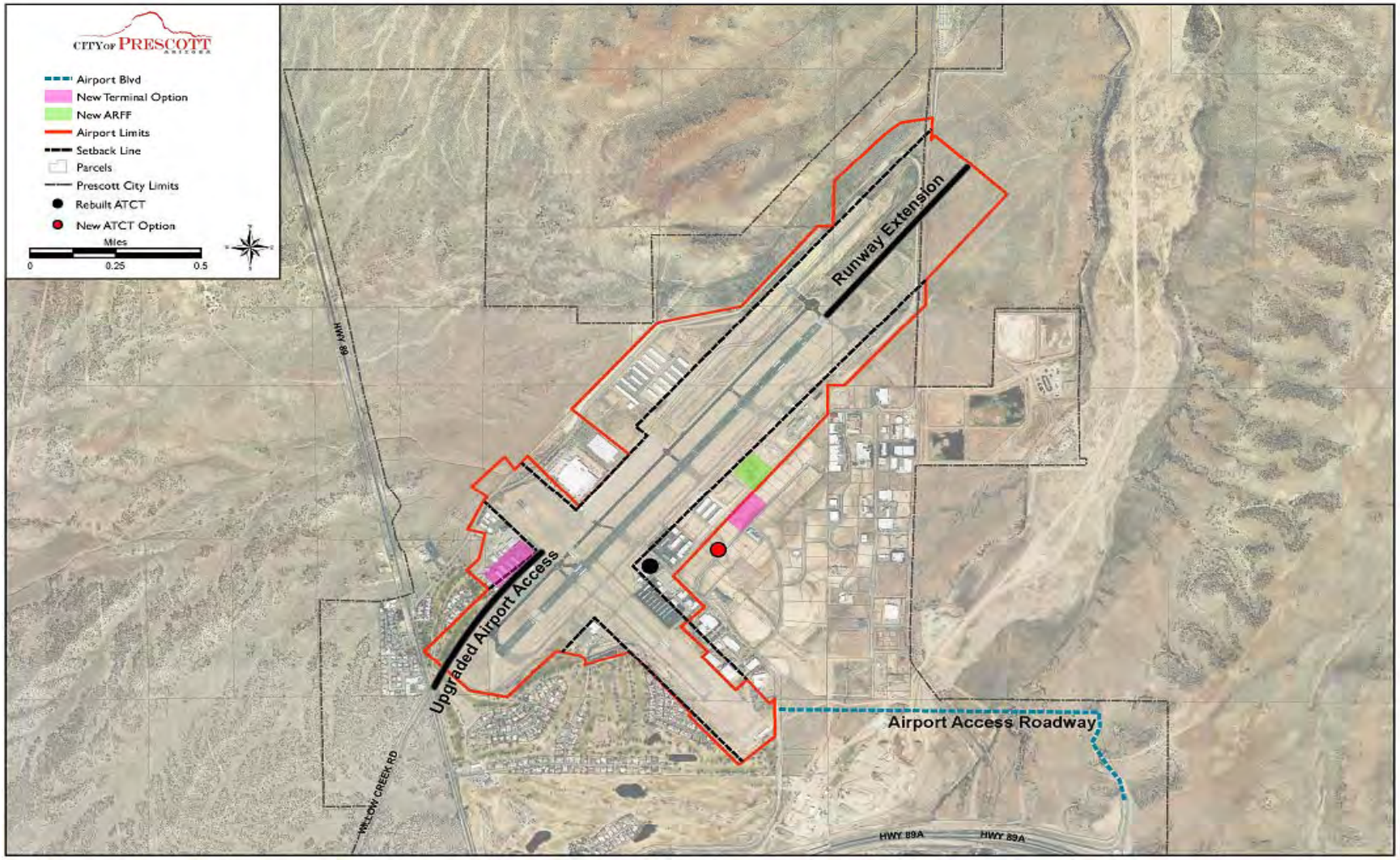


Exhibit 2

- Create “inside the fence” development opportunities and elevate the overall economic development potential of the Airport Area (Exhibit 3)
  - Facilitate on-airport business retention/expansion
  - Land acquisition to accommodate on-airport business attraction
  - Initiate site improvements to provide hanger facilities and office space to support current and future demand
  - Achieve air passenger service with the potential to increase demand for visitor/business services (hotels, restaurants, meeting space, etc.) in the Airport Area and Downtown Prescott

“Inside the Fence” Economic Development Sites

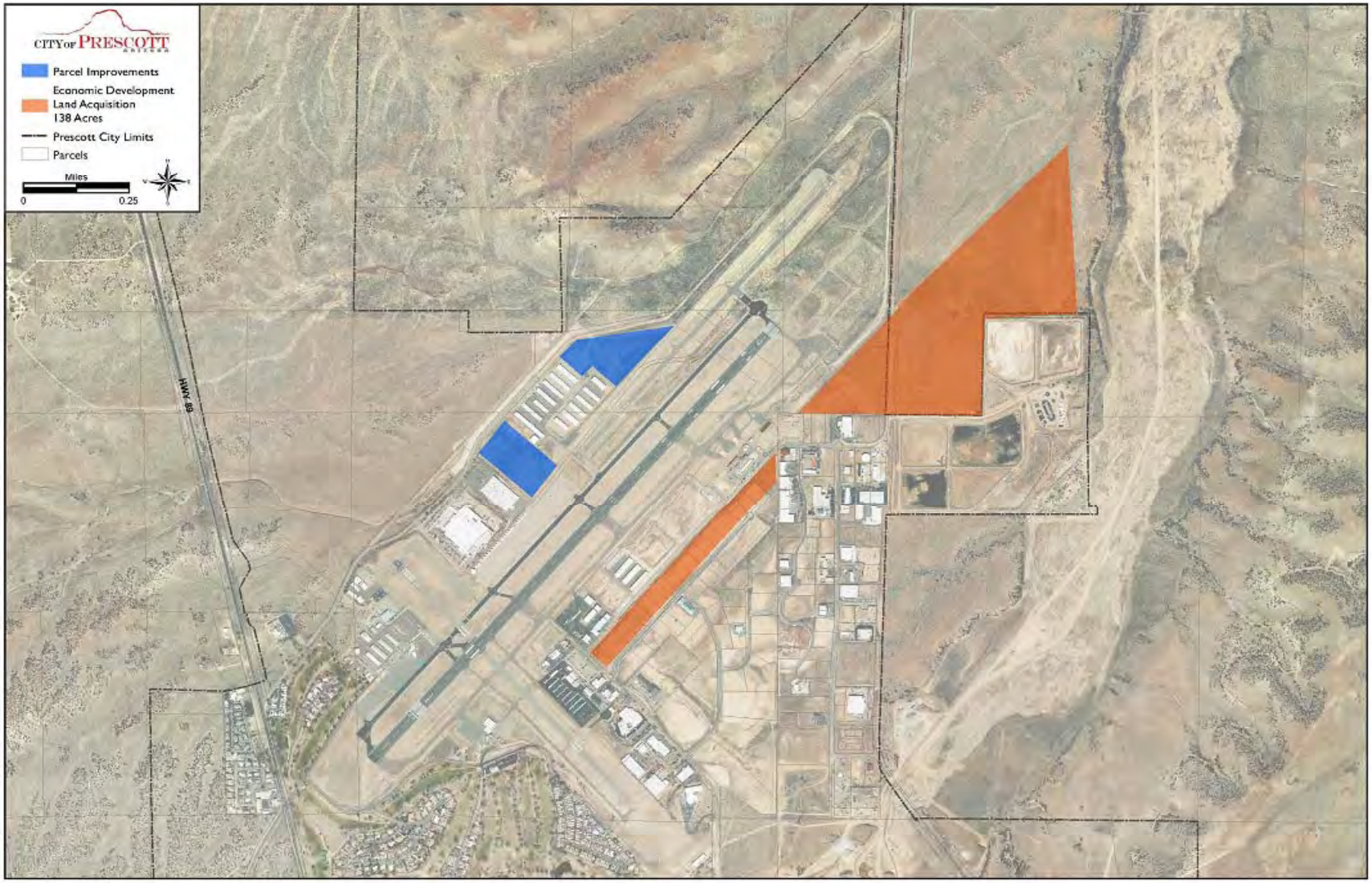


Exhibit 3

Cost Estimates – Airport Capital Improvement Program (CIP)

- The costs of PRC improvements depend upon which of two operational futures is chosen
  1. Prescott successfully pursues regularly scheduled air passenger service (non-subsidized) - PRC becomes a regional airport serving a regional market, Or
  2. The Airport becomes a best-in-class general aviation facility (with economic development potential but absent air service)
- A matrix highlighting the pros, cons, and cost estimates of the alternative outcomes is presented in Exhibit 4.

	Pros	Cons	Project Estimated Costs
General Aviation Airport	Airport focus is sustainability, protection,	Land acquisition will still be required to protect	$ 345,000 - Airspace Obstruction Mitigation
	maintenance, and customer service	the airport's operational future	$15,850,000 - Taxiway Charlie Relocation
	Economic development"inside the fence" and	The ability of the Airport to be an engine of	$ 1,400,000 - Avg. Annual Pavement Preservation
	in support of the Airport Area is preserved	future economic growth will be constrained	$ 6,588,352 - Taxiway Lighting Upgrades
	The Airport remains a strong partner to area flight	Prescott will forego the potential for regularly	$ 4,700,000 - Runway Protection Land Acquisition
	schools (Embry-Riddle, North-Aire & Guidance)	scheduled air passenger service	$29,887,352- Total Estimated Cost
	Noise incursions on residential areas adjoining to	The advent of larger US Forest Service aircraft	$ 1,172,125 - Total Est. Local Share
	or in approach areas of Airport are known	could be a future challenge for PRC	
	Existing U.S. Forest Service aircraft can continue to	The Airport as an enabler of next-level tourism	
	operate at PRC under waivers	activity will be lost	
	Future capital costs will be significantly reduced	A checkmark (for ease and speed of access for	
	with operations of a General Aviation Airport	vendors/service personnel) will be missing	
	PRC becomes less dependent on future FAA	Heavy reliance on a single industry for airport	
	funding for its desired outcome	activity (flight training) and important revenues.	
	Most corporate aircraft will continue to be served		
Regional Airport	The focus is to protect, maintain and grow key	There is no guarantee that expanded airport	$ 19,956, 651 - New Terminal & Support Infrastructure*
	Airport facilities/services in order to maximize	infrastructure and facilities will bring new air	$ 7,500,000 - New Airport Rescue Firefighting facility
	benefits to residents and businesses in the	service to the market.	$ 18,007,501 - Runway/Taxiway lengthening/strenthening
	Airport Area and Prescott.	The ability to attract air passenger service and	$ 3,900,000 - Land Acquisition (economic development)
	Pursue and obtain regular air passenger service	grow the Airport Area employment base is	$ 14,084,482 - New Air Traffic Control Tower
	Expand tourism opportunities for Prescott	primarily determined by the economy	$ 250,000 - Air Service Development Study
	Facilitate attraction of new investments including	Development of PRC as a regional airport is	$ 63,698,634 - Regional Airport Investment
	hotels/resorts and meeting centers	heavily dependent on FAA funding support	$ 29,887,352 - General Aviation improvements
	Enhance Prescott's ability to retain/attract U.S.	Significant increase in facility and infrastructure	$ 93,585,986 - Total Estimated Regional Airport Cost**
	Forest Service presence at PRC into the future	costs as a regional airport	$ 6,633,912 - Total Estimated Local Share**
	Strengthen Prescott's economic development	A regional airport will broaden the reach of	
	future as the employment center for Central AZ.	Airport Impact Zones & increase noise levels along	
	Expand "inside the fence" opportunities to retain	the main runway	
	existing airport businesses and attract new ones		
	**Land acquisition, roads, parking, apron, & terminal*		
	***Does not include access road construction costs*		

Exhibit 4

- To illustrate bonding options for Airport facility and infrastructure improvements (highlighted in the CIP), three examples are provided below (Exhibit 5)
- The options reflect local costs (project matches, etc) of $5, $10, and $15 million for improvements

	20-Year Bond Pricing Examples*			
City	Bond Expenses	Net Interest Cost	Net Interest	Annual Avg. Debt Service
$5,000,000	$135,000	4.87%	$2,930,920	$405,002
$10,000,000	$175,000	5.36%	$6,734,421	$831,768
$15,000,000	$240,000	5.35%	$9,977,694	$1,245,318
City of Prescott, Municipal Property Corp.				

Exhibit 5

- Exhibit 6 highlights aircraft data for aircraft utilizing a regional airport for passenger service plus aircraft currently operating at PRC
- The Beechcraft 1900 is used by Great Lakes Airlines while the Cessna 172 is a training aircraft found at PRC
- Bombardier and Embraer aircraft are common regional jets for air passenger service

Estmated Maximum Sound Levels from Aircraft			
Manufacturer	Airplane	Engine	Max. Decibels
Beechcraft	1900	PT6A - 65B	77.0
Bombardier	CRJ 700	CF34 - 8C1	82.5
Embraer	EMB - 145ER	AE3007A	82.9
Cessna	172	0-320-E2D	61.0
Source: FAA			

Exhibit 6

- Many factors determine the feasibility of an airport's ability to secure and maintain (non-subsidized) air passenger service (Exhibit 7)
  - Cost per ticket
  - Destinations
  - Airport service area population
  - Income
  - Demographics
  - Proximity of hubs
  - Aircraft types used by airlines
  - Airport facilities and infrastructure

	Prescott Municipal	Flagstaff Pulliam	Redmond Municipal (OR)	Manhattan Regional (KS)	St. George Municipal	Rochester Int'l (MN)
City Population	39,843	65,870	26,215	52,281	72,897	106,769
County Population	211,033	134,421	157,733	105,477 (2 counties)	138,115	144,248
County Median Hhld. Income (2012)	$ 43,652	$ 48,320	$ 51,486	$ 43,364	$ 49,145	$ 66,667
Distance to Hub	105 PHX	250 LAS	144 PDX	140 KCI	117 LAS	86 MSP
Distance to Hub	243 LAS	145 PHX	301 SEA	129 ICT	303 SLC	336 ORD
Current Terminal Sq Ft	3,800		132,000	12,500	35,000	55,683
Year Built	1947	1993	1981	1997	2011	1950s
Addition(s)	1950s, 1970s, 1980s, 1990s, 2008	2005	1993, 2009	current construction to 42,000 sq ft		1970s, 1980s, 2000
Airline	Great Lakes Airline	US Airways Express	Horizon Air	Allegiant	Skywest-Delta	American Eagle
Airline			United Express	American Eagle	United Express	Delta Connection
Airline			Delta Connection			Allegiant
Airline			American			
Total Departures	3	6	15	5	5	9
Total Arrivals	3	6	15	5	5	9
Destinations	LAX	PHX	SEA, PDX, LAX, SFO, DEN, SLC	ORD, DFW, IWA	DEN, SLC	ORD, MSP, IWA
Rental Car Agencies	1	6	6	2	4	5
Auto Parking Spaces	100	396	1000	648	476	753
CY12 Enplanements	5,152	62,472	229,736	69,038	53,977	105,371
Acreage of Terminal Area	appx 3				appx 10	appx 20
Captured tickets based on Leakage Analysis	appx 8%		80%		22%	appx 12%

Exhibit 7

Redmond Municipal Airport, OR

Manhattan Regional Airport, KS

Flagstaff Pulliam Airport

St. George Municipal Airport, UT

Rochester Int'l, MN

Prescott Municipal Airport
PRC | Copyright by COOL LAST SAMURAI | 2008-01-12 | Airport-Data.com

Funding Options for Airport Improvements

- Airport-Generated Revenues
- City General Fund Transfers
- FAA Airport Improvement Program (AIP)
- ADOT State Aviation Fund
- Passenger Facility Charges (PFCs)
- Non-Traditional Grant Sources
- Bonding Financing
- Public/Private Initiatives

AIRPORT REVENUES

The Airport Operating Budget is divided into three functional programmatic areas: Airside, Landside and Terminal Operations.

The **AIRSIDE** funds the operation and maintenance of the physical airfield facilities. Monies received are used to help fund maintenance of airport pavements and the airfield lighting and signage system. Costs are recovered through:

1. **Fuel Flowage Fees:** The specified amount of money per gallon of fuel pumped and paid to the airport by the entity pumping the fuel for the privilege on the airport (retail sale or bulk self-service non-retail).

2. **Landing Fees:** Landing fees are assessed to all air carriers, cargo carriers, and chartered flights/large commercial aircraft above 12,500 pounds gross landing weight using the airport per landing.

AIRPORT REVENUES

The **LANDSIDE** funds the public-use infrastructure (hangars, buildings, parking lots and roadways, landscaping, etc.). Costs are recovered through:

- **Ground Rentals:** Based upon fair market appraisals for vacant property as well as existing ground leases.
- **Facility Rentals:** Based upon fair market appraisals for vacant facilities as well as existing leases facilities.
- **Hangar Rentals, Tie-downs and Storage Unit Rentals:** Rates for monthly rental of city-operated aircraft hangars, shades, open tie-downs and storage units. Rental fees are evaluated on an annual basis.
- **Miscellaneous:** Miscellaneous revenues consist of other revenue items that do not occur on a regular basis or are minor in total revenues received. This includes transient aircraft overnight parking fees, facility transfer fees, aviation self-fuel permits, vehicles storage permits, etc.

AIRPORT REVENUES

The **TERMINAL OPERATIONS** fund the operation and maintenance of the Airport Terminal. Revenues received from this program are used to help fund the operation, maintenance, safety and security of the terminal, terminal area and terminal vehicle parking lot. Costs are recovered through:

- **Facility Rentals:** Represent facility lease and license agreement charges for commercial tenants operating in the terminal building.

- **Rental Car Commissions:** Represents concession charges to rental car companies operating at the airport. The airport receives a negotiated amount per vehicle rental.

- **Miscellaneous Revenues**: Miscellaneous revenues consist of other revenue items that do not occur on a regular basis are minor in total revenues received. This includes vending concessions, fingerprinting, and advertising concessions.

- **Vehicle Parking:** ***The City does not currently charge for vehicle parking.***

AIRPORT IMPROVEMENT PROGRAM (AIP)

To promote the development of a system of airports to meet the Nation's needs, the Federal Government embarked on a grant-in-aid program for state and local governments following World War II.

The current program, known as the Airport Improvement Program (AIP), was established by the Airport and Airway Improvement Act of 1982 (Public Law 97-248). Since then, the AIP has been amended several times, most recently with the passage of the FAA Modernization and Reform Act of 2012.

Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is supported by aviation user fees, aviation fuel taxes, and other similar aviation-generated revenue sources.

How Does FAA Determine Which Projects Will Receive AIP Funds?

- Because the demand for AIP funds exceeds availability, FAA bases distribution of these funds on national priorities and objectives.

- AIP funds are typically first apportioned into major **entitlement** categories such as primary, cargo, and general aviation.
  - **PRC receives $150,000 in annual entitlement funds**
  - **If PAX enplanements exceed 10,000 annually, the entitlement fund level increases to $1,000,000 - $1,500,000**
    - **NOTE: In 2009, PRC met this threshold but never received the expected entitlement**

- Remaining funds are **discretionary,** distributed according to a national prioritization formula. Set-aside projects (airport noise and the Military Airport Program) receive first attention from this discretionary distribution.

AIRPORT IMPROVEMENT PROGRAM (AIP)

How Much of the Project Cost Does a Grant Cover?

- For large and medium primary hub airports, 75 % of eligible costs (or 80% for noise program implementation).

- For small hub, non-primary commercial service, GA reliever & general aviation airports, the grant covers **95%*** of eligible costs.

- Example: $1,500,000 runway project

  - FAA $1,425,000 (95%)
  - State $ 37,500 (2.5%)
  - Airport $ 37,500 (2.5%)

ARIZONA STATE AVIATION FUND

Arizona Revised Statutes - Section 28-8202

The State Aviation Fund established is funded by:

1. Aviation fuel taxes or motor vehicle fuel taxes
2. Monies from of the sale of abandoned or seized aircraft
3. Flight property tax
4. Registration fees, license taxes and penalties collected
5. Monies received from the operation of airports

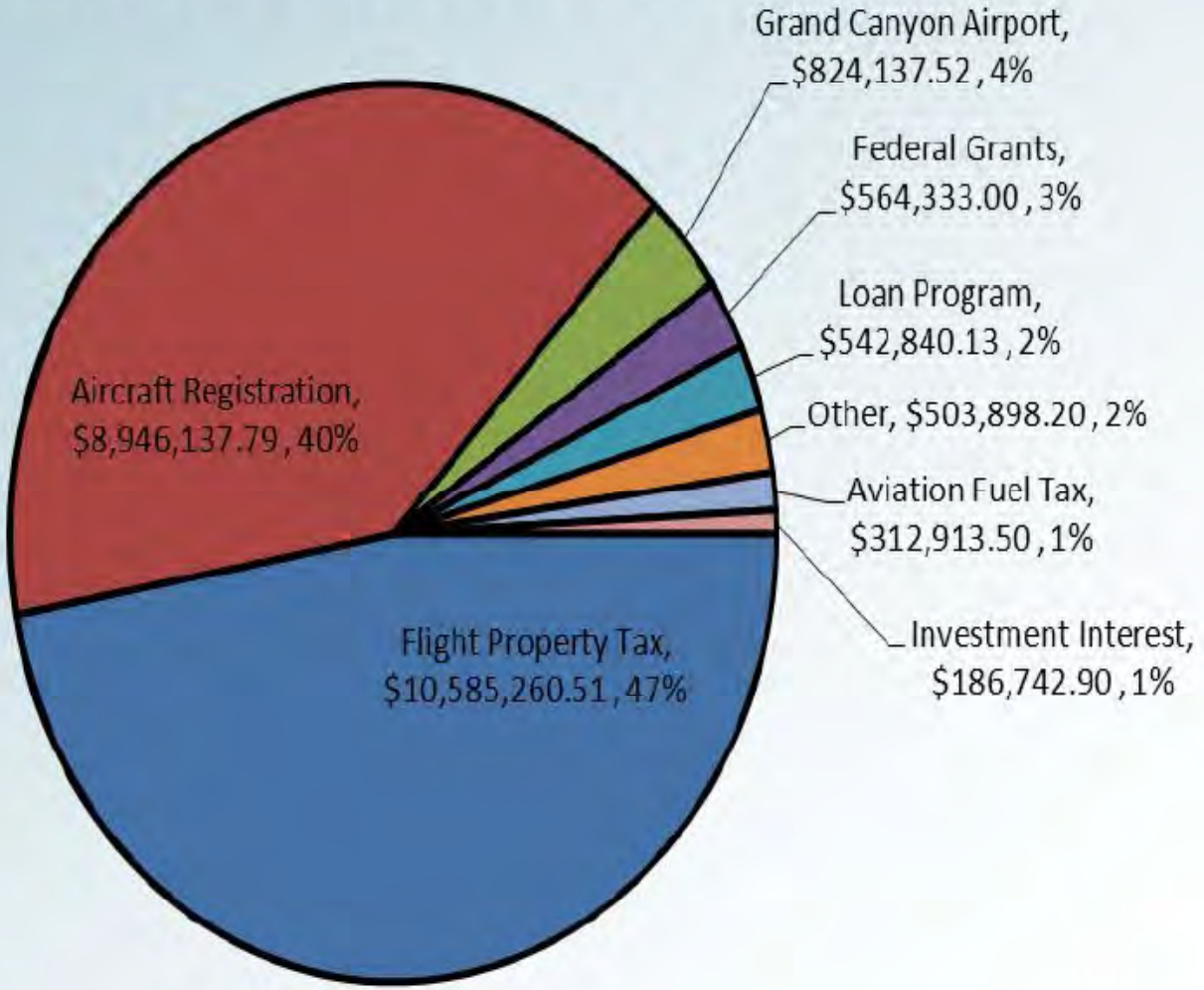
The State Transportation Board shall distribute monies for planning, design, development, acquisition of interests in land, construction and improvement of publicly owned and operated airport facilities.

Not more than 10% of the average annual revenue that the Fund received for the past three years may be awarded to any one airport in grants in any fiscal year.

- **At the current level, an airport could receive up to $2,000,000 in state funding based upon project rankings**

Arizona State Aviation Fund

Revenue for FY 2012 - $22,466,264,



Arizona State Aviation Fund

Five-Year Development Program - Fiscal Year 2014

• Federal Match Grants (FSL)	$ 4,500,000
• State-Local Grants (SL)	$16,116,541
• Airport Pavement Preservation (APMS)	$ 6,426,786
• Airport Development Loans	$ 2,000,000
• State Planning Services	$ 2,600,000
•TOTAL PROGRAM	$31,643,327

ARIZONA STATE AVIATION FUND

Airport Categories

- **Commercial Service (12)**
  - Laughlin/Bullhead, Flagstaff, Grand Canyon, Kingman, Phoenix-Mesa Gateway, Page, Peach Springs/Grand Canyon West, Phoenix Sky Harbor, **Prescott**, Show Low, Tucson, and Yuma.
- **Reliever (8)**
  - Chandler, Mesa-Falcon Field, Scottsdale, PHX-Deer Valley, PHX-Goodyear, Glendale, Marana, Ryan Field
- **General Aviation - Community, Rural and Basic (71)**

Why The Airport Category is Critical to Funding:

FY2014 - Approximately $20,000,000 programmed for grants:

Commercial Service Airports	40% ($8,000,000)
Reliever Airports	40% ($8,000,000)
General Aviation Airports	20% ($4,000,000)

PASSENGER FACILITY CHARGE (PFC)

- The Passenger Facility Charge (PFC) Program allows the collection of PFC fees up to $4.50 for every boarded passenger at commercial airports controlled by public agencies.

- Airports use these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.

- ***PRC does not currently participate in this program.***

Funding Options for Airport Improvements

- City General Fund Transfers
- Non-Traditional Grant Sources
- Bonding supported by revenue stream
- Public/Private Initiatives

Presentation Summary Points

- The Airport has two alternative futures
  - PRC is now primarily a General Aviation airport
  - It may take 10 to 15 years for PRC to become a regional airport with non-subsidized scheduled air passenger service
- Time is of the essence relative to development of a regional airport
  - New residential development in the Airport Area will complicate Airport growth
  - Fture FAA funding (AIP) is not assured
- The financial costs are significant for either airport future
- The benefits can also be significant
- Regardless, the Airport will be a key factor in the economic development potential of the Airport Area

Next Steps

- Finalize Strategic Planning SWOT Analysis
- Summarize Airport Area Stakeholder Group Discussion and Feedback
- Session 4 – Priorities, Projects, and Funding
  - Airport
  - Airport Area
  - The Future Compass

Council Questions/Discussion