

Airport Beacon Report



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CREATIVE METHODS OF CAPITAL COST RECOVERY

By Mark R. Davidson, A.A.E., Vice President

This past month, the Bush Administration submitted the proposed 2007 FAA budget that would reduce spending significantly for the Airport Improvement Program (AIP) and other programs that would impact our industry. Specifically, the budget proposes spending \$800 million less in AIP funds next year. To provide some perspective, the proposed budget is \$2.7 billion, compared to the \$3.5 billion appropriated for this year, and the \$3.4 billion spent in 2005.

It is important to keep in mind that these cuts are not limited to a few large hub airports. The cuts will effect practically every public airport across the nation. For instance, a general aviation airport that is currently entitled to \$150,000 per year in Federal improvement funds may be reduced to zero under this year's proposal. Also, commercial airports that are usually guaranteed \$1 million per year may drop to \$650,000.

Beyond the AIP, there are other FAA budget cuts that will impact our industry. For example, the Small Community Air Service Development grant program (which so many of you apply for each year) is not included in the proposed budget. In addition, funds for the Essential Air Service (EAS) program were cut and emphasis was placed upon airports to increase local fund matching.

So what are Airport Executives supposed to do beyond crying and calling their Congressman??? Well, for commercial service airports, it looks like the trend of the future is to become as self-sufficient as possible and increase the dependance upon



New Tug: Cost Cutting Measure Gone to the Extreme

Passenger Facility Charges (PFC). The problem with depending exclusively upon PFCs is that it is a vicious cycle for small airports. For example, the airport needs passengers to collect revenue, and needs revenue to collect passengers. It ends before it begins.

In previous issues of the *Airport Beacon Report*, we have discussed alternative revenue opportunities such as non-aviation land development and starting non-traditional businesses. Although those are good tactics to consider for generating cash to pay for projects, this article is going to focus on recovering the cost of capital investments, while minimizing the impact on FBOs and tenants.

Often, an airport will propose a cost recovery fee structure that has no end in sight and essentially drives away base tenants and customers. The ideal situation is to match grants and fund projects while recovering the costs from the primary users and benefactors of the project. This can be done in a number of ways,

although it can be difficult to adopt an approach that will appropriately fit each airport's individual situation and factors.

One approach is to impose a one-time assessment to all that would benefit from a specific project. This one-time assessment would inform the users of the cost of the specific project, as well as set out different payment methods to cover the cost. If feasible, the airport can offer percentage discounts if the tenants want to pay in a lump sum, as opposed to spreading out the assessment over time. If this method is used, a process must be developed to inform the tenants of the benefits of the project, negatives if the project is not completed, and offer a comment period.

Assessments are hard to impose since everyone will not be in favor of the capital improvement, and distributing the assessment proportionately to all of the different users is not an easy task.

Another alternative is a dedicated percentage rent to cover the capital cost. In most cases, this method is easier to impose versus the one-time assessment method. Under this scenario, tenants would pay a percentage of gross revenues, with revenues

specifically allocated to a project. However, in this alternative, tenants that are thriving will pay a larger amount than those tenants who are faced with slow business, which may create problems. When using this method, it is best to use historical data to estimate the amount of time and level of the percentage rent that would need to be imposed to cover the cost.

The final method worth mentioning is the fuel flowage surcharge. In many cases, this is the best way to impose a direct fee to cover capital costs that benefit all the users, especially if the project is on the airfield. In this scenario, a separate and specific fuel flowage fee surcharge is applied, with all dollars generated allocated to debt service, and perhaps a reserve to address future maintenance needs associated with the project. This is effectively used at many airports to address the cost of a new fuel storage facility developed by the airport, FBO ramp rehabilitation, and other projects specifically benefitting the airport users. (Note: This scenario is best applied to general aviation airports or improvements, since GA users are the one's that gain the most benefit and bear the cost of infrastructure through fuel flowage fees now.)

However, the decision to impose a fuel flowage fee surcharge can not be made in the vacuum of space. Discussions with the FBO are necessary since the fuel prices on the field are competitively calculated with other airports in the region. Moreover, decisions can be difficult regarding the term of the surcharge, since as with other temporary "taxes", they never seem to be temporary!

In summary, airports across the country are going to have to rethink their business model as the Federal Government continues to decrease appropriations. Imposing fees to cover costs, while minimizing the impact on tenants and users, will be the key to continued growth.



"Your trial period is over. Please register to continue using this software."

A Little Known Fact about the Evolution of Man:

Millions of years ago, there was no such thing as the wheel. One day, some primitive guys were watching their wives drag a dead mastodon to the food and fire area. It was exhausting work, the guys were getting tired just watching. Then they noticed some large, smooth, rounded boulders and they had a great idea! They could sit on top of the boulders and get a better view of their wives working. This was the first in a series of breakthroughs that ultimately led to television and then later to the remote control.

THE NEED FOR STANDARDS

By Bobbi Thompson, Executive Vice President

One of the many services we offer is the development of Minimum Standards for Commercial Aeronautical Activities. Many airports struggle with the decision on whether or not they need to spend staff time or select a consultant to prepare a set of Minimum Standards for their airport(s). While that decision is dependent upon the time constraints, staff ability, and finances available, the decision to develop and/or update standards should not be ignored. There are many reasons for establishing minimum threshold requirements for commercial aeronautical service providers. Here are just a few:

- Ensure that the Airport Sponsor is in compliance with contractual Federal grant obligations.
- Compliance by Sponsor with FAA Advisory Circulars
- Protect aviation business enterprises from unfair competition.
- Establish threshold goals for services and quality of services.
- Provide equal and fair treatment.

- Prevent unjust discriminatory treatment to prospective and existing tenants.
- Clarify requirements in a published document.
- Protect the public by requiring that each provider is qualified and certificated to provide the stated service.

To insure that you develop Minimum Standards that are specific to your airport, it is very important to take all of the time necessary to gather and analyze the appropriate standards and requirements for your specific situation. In addition, it is usually prudent to hold a series of tenant workshops to assist in obtaining their “buy-in”. Equally important, you should develop a well-defined set of project tasks and a time line to ensure that you can feasibly achieve the stated goals. Furthermore, it is usually a good idea to appoint a person or committee to act as “devils advocate” to determine any loopholes or other potential problems/weaknesses which might cause future problems. Within your proposed project schedule, allow time for the FAA to review the proposed document.

In the preparation of Minimum Standards, do not forget to include scheduled reviews and updates. Having a set time frame to review the standards will prevent the appearance of changing your threshold requirements to help or prevent a new commercial business from establishing a presence on the airport.

Make sure requirements are specific. Address each type of commercial service being offered, including ones that may be offered at a future time. Furthermore, be sure to include minimum leasehold and facility sizes, personnel qualifications and certifications as appropriate, minimum insurance requirements, minimum equipment requirements, hours of operation, etc. Avoid using vague terminology that makes enforcement a judgement call.

Whether you decide to develop/update your Minimum Standards in-house or use a consultant, keep these tips in mind. Although, it may not be “exciting” to develop and/or update Minimum Standards, it can be more “exciting” than facing future discrimination claims and possibly lawsuits.

ASK ABS

In each issue, we have included a section called "Ask ABS", where we request aviation-related questions from our readership. Each month we publish one question that we receive from our readers with a joint reply from our professional consulting team. Even if your question is not selected, all questions submitted will be responded to via e-mail. Please submit a question by e-mailing Mark Davidson at the following: mdavidson@airportbusiness.net

This month's question was not specifically submitted by anyone, but represents an on-going question to us. *"We have been approached by a local corporation about building a corporate hangar at the airport. Should we consider this option? More importantly, should we allow them the ability to install their own fuel farm for self-fueling?"*

Ah, the dreaded corporate hangar and corporate self-fueling issue. This is probably the most troubling issue facing FBOs and consultants after the infamous "How many FBOs?" argument. From the airport's perspective, it seems like a no-brainer. More revenue generated from land leases, and at worst, the same fuel volumes as before. Unfortunately, it is much more complex than that. The future of your FBOs might be at stake.

The corporate tenant of an FBO that has the financial stability to warrant the construction of their own hangar facility and fuel farm is probably the most important tenant your FBO has, or might have, if you are talking about a new tenant to the airport. These are usually the tenants that provide the "base" revenue stream for the FBO. The revenues generated by based tenants at an FBO usually represent those necessary to cover the day-to-day operating expenses. Retail sales to transients usually reflect the "profit" aspect of the FBO. This is why FBOs usually discount fuel and hangar rates for based customers, while transients pay much closer to posted retail.

As a result, the loss of significant based customers can result in higher costs to your based aircraft tenants and users. In case you have not figured it out, the based tenants are usually the ones that are the first to your office or to the local politicians if they

perceive the FBO is "gouging them". While this is not to say that some FBOs do not take advantage of some of their customers, but in our experience, it is the exception rather than the rule. Most FBOs recognize that aircraft owners/users have a choice of when and where to buy fuel given today's more efficient aircraft. As a result, the emphasis on customer service is higher than ever for most FBOs today.

Back to the fuel farm and self-fueling issue. The reality is that in most situations, despite the claims of requesting parties, the desire for self-fueling is more about power than price! With the exception of a few extremely high volume users, a corporate entity that does their homework will reach the conclusion that it is much more cost effective to negotiate a reasonable fuel discount from the FBO. Direct costs such as the tank and installation, environmental equipment, insurance, training, maintenance, etc., are usually sufficient to offset any "savings". When they factor in the time it takes to maintain compliance through reporting requirements, it usually sends them back to the FBO for one more attempt at a negotiated fuel deal. Trust me, most FBOs ultimately realize that "something is better than nothing" when faced with real prospect of losing a tenant and their fueling business. They eventually reach the conclusion that chances are, when they are gone, they are not coming back!

What does all of this mean to the airport? Taking local politics out of the equation, in my opinion, there are few viable reasons for an airport to allow private corporate hangars and fuel farms. Financially stable and viable FBOs will have a much more positive long-term impact on an airport that any number of corporate hangar developments. FBOs represent the front door and gateway to your community with regard to industry and corporate decision-makers. Therefore, it is in the airport's best interest to guarantee their success, but to work closely as a team to insure that both parties meet their needs and goals.



SMART KID

A father passing by his son's bedroom was astonished to see the bed was nicely made and everything was picked up. Then he saw an envelope propped up prominently on the pillow. It was addressed, "Dad". With the worst premonition, he opened the envelope and read the letter with trembling hands:

Dear Dad,

It is with great regret and sorrow that I'm writing you. I had to elope with my new girlfriend because I wanted to avoid a scene with Mom and you. I've been finding real passion with Joan and she is so nice. I knew you would not approve of her because of all her piercing, tattoos, her tight motorcycle clothes and because she is so much older than I am.

But it's not only the passion, Dad, she's pregnant. Joan said that we will be very happy. She owns a trailer in the woods and has a stack of firewood for the whole winter. We share a dream of having many more children.

Joan has opened my eyes to the fact that marijuana doesn't really hurt anyone. We'll be growing it for us and trading it with the other people in the commune for all the cocaine and ecstasy we want. In the meantime, we'll pray that science will find a cure for AIDS so Joan can get better; she sure deserves it!!

Don't worry Dad, I'm 15 years old now and I know how to take care of myself. Someday I'm sure we'll be back to visit so you can get to know your grandchildren.

P.S. Dad, none of the above is true. I'm over at Tommy's house. I just wanted to remind you that there are worse things in life than the report card that's in my center desk drawer. I love you! Call when it is safe for me to come home.

Airport Business Solutions is recognized as the leader in providing valuation, analysis, and consulting services to airports and aviation businesses, and offers a diversity of backgrounds and experience which provides a new, creative, and "outside the box" perspective on a myriad of aviation issues and problems.

In addition, our international affiliate, Airport Business Solutions International, AEC, has helped numerous airports worldwide with a variety of airport management and operational issues and problems. Problems at international airports are no different from those experienced at airports in the U.S., and the diversity of experience and breadth of knowledge of Airport Business Solutions International has been extremely valuable in achieving comprehensive solutions to those issues.

For More Information

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