Identifying Potential Funding Sources for Airport Capital Improvements

ORIKAYE GOGO BROWN-WEST

The continuing financial problems of rural regional airports have motivated a search for ways of financing capital improvements, which are necessary for the efficient operation of the U.S. airport system. Direct airport revenues do not provide enough funds to defray operational costs, let alone pay for capital projects. Because airport authorities or local government units are required to provide matching funds for federal dollars appropriated, new funding sources must be found. This paper identifies some sources and concludes that they can singly or in combination provide the necessary monies to improve our airports.

Since the end of World War II, airports have developed as focal points of the nation's transportation system. Today, the airport system of the United States has grown to be the most extensive in the world. Most airport authorities, made up of several city, county, and regional airports, are owned and operated by units of their local government. But because the system is essential to both national transportation and defense, there is a large federal investment in it. Starting in 1970 as a result of the Airport and Airways Development Act (P.L. 97-258), and reinforced in 1982 by the Airport and Airways Improvement Act (P.L. 97-248), the federal government provides 90 percent funding for federally eligible items in airport masterplans. Where eligibility requirements, FAA regulations, and funding criteria for the type of airport are met, the cost of future improvements may be borne completely by the federal government or by federal and local matching funds.

In recent years, aircraft noise has become a major problem in the air transport industry, making airports targets of restrictions aimed at aircraft noise levels and other airport-related environmental concerns (*1*). As a result, airports have become political and special interest pawns, to the extent that the futures of many are determined through the local political process, leaving a few airports without adequate political, and therefore, financial support for capital improvements.

Many local and small regional airports are facing problems—unpredictable and often inconsistent levels of government contributions, declining levels of air carrier service, inadequate terminal space, decreasing concession income, landing fees, ground rents, and perennial operating deficits. Direct airport revenues from these sources have never been able to sustain operating budgets, let alone provide the necessary funds for capital improvements. The magnitude of the funds that are required to make major capital improvements at today's airports preclude financing out of current revenues. New funding sources must be found.

Oriann Interests, P.O. Box 1076, Salisbury, Md. 21801.

The purpose of this paper is to provide information to masterplan developers, whose onus it is to identify funding sources for the improvements they propose. The paper also proposes that in this era of Gramm-Rudman-Hollings budget restraints, sources other than government units are available for the financing of capital projects. Identifying these sources is important; for the airport system to continue to function efficiently, improvements in the physical infrastructure and updates of the operational hardware must be made.

FUNDING SOURCES

Public airports must compete for funds with other government activities. As with other budget items, they are scrutinized during budget preparation and often subjected to public debate, particularly if major improvements or new construction is anticipated. Although the local share required is only 10 percent, some communities find it difficult to provide that amount.

In 1986, a comprehensive investigation of various sources of funding for capital expenditure for some county airports in the Southeastern United States, mainly Alabama, Florida, and Mississippi (O. G. Brown-West, Airport Masterplan: Revenue Potential and Funding Sources Studies, Southeast Rural Airports, Oriann Interests, 1986, unpublished data), was made to determine (a) their ability to finance airport improvements, and (b) their political and fiscal feasibility. Using the model shown in Figure 1, the study identified the following potential funding sources:

- Revenues from excess airport land,
- General and special taxes,
- State and federal agencies,
- Bond financing,
- Shopping-list financing,
- Lease-purchase financing, and
- Reserve funds.

Revenues from Excess Land and Other Airport Properties

The study cited in the previous paragraph reveals that many airports have excess land and other properties that are not being used for aviation purposes. Such properties can be revenue-yielding if adapted for best use. In each case, it is essential to conduct an on-site inspection or examine maps and aerial photographs of all property owned by the airport authority for (a) suitability for development and (b) revenue potential,

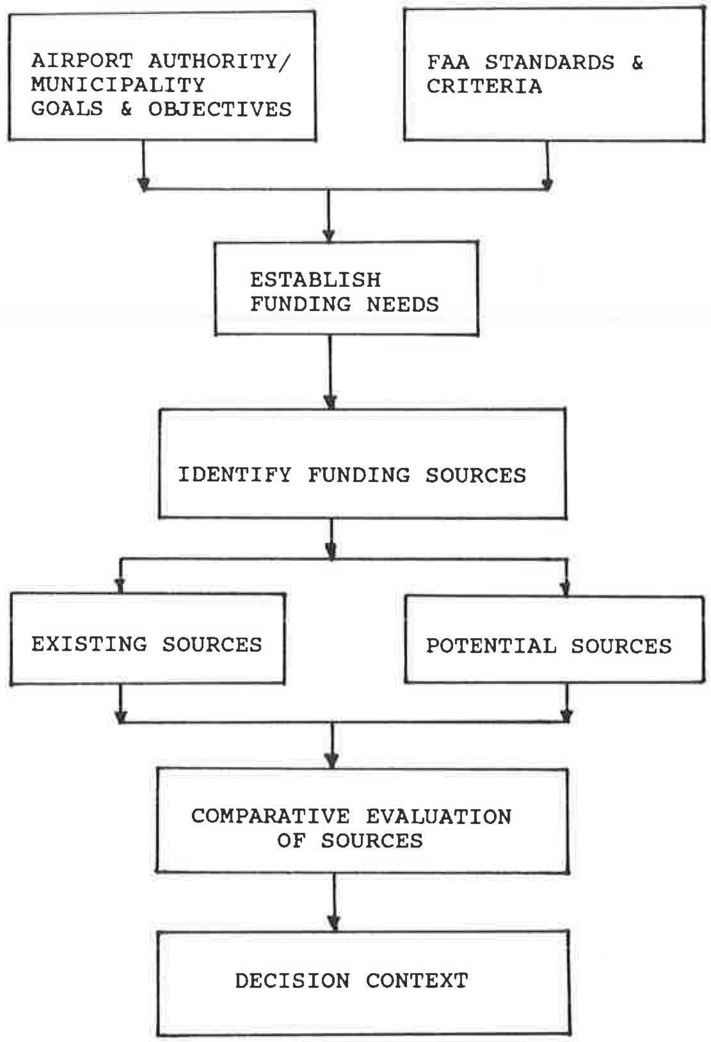

FIGURE 1 Framework for identifying funding sources for rural airports.

viewed in terms of contiguous land uses and the airport and the area's ability to provide best-use support services.

Based on the size and location of these surplus properties, the airport authority can decide which properties to dispose of and how to dispose of them. In localities where there are no established land use or land disposal policies, consideration of the following could determine the best use and the disposal method.

- The short- and long-term goals and expectations of the airport management, in particular, and the community, in general;
- The development of the airport as both a public facility and a capital investment for the area;
- Compatibility of future and existing land uses and with the airport as an aviation center; and
- The potential of the available property for providing funds for capital improvements for the airport and economic opportunities for the area.

If outright sale is the method adopted, an appraised value obtained from the tax assessor's office or private valuator can provide the amount to be expected from this source. In lieu of actual appraised values, a fair-market value can be obtained based on a comparison with identical land sales. In either case, the actual sale price will also depend on the attractiveness of the property, other externalities, and the urgency of the need for the funds.

General and Special Taxes

Various methods of financing the local share of capital improvements exist in many communities. Where the amount of funds required for future improvements exceeds the expected funding level, the imposition of general or special taxes to increase capital has to be considered. Such direct taxes are not uncommon, although politicians have found it difficult to justify their use to support income-producing activities such as aviation and public transportation. The fact that airports have been receiving financial support from government sources for other purposes, however, should make special tax support for capital improvements easier to justify.

Nonoperating Revenues from Government Sources

Airport income generated through nonoperational sources includes contributions by city, county, and state and FAA grants.

Although the amount of funding is not always easy to forecast because of the dependence of such grants on the availability of funds, taxpayers' other obligations, and competitive venture capital needs, a substantial amount of funding for operations is derived from contributions by these government sources.

The amounts are determined in the annual budgets by the governing boards of the local government units, the state comptroller's office, and the FAA regional director's office. Because these government units depend on revenues and disbursements from other sources, the amount they will contribute in any one year is a matter of conjecture.

Bond Financing

The most common way to obtain the capital funds necessary to finance airport and other transportation improvements is bond financing. This method has been used successfully in funding many airport capital improvements even though it is a one-shot financing approach and is therefore difficult to rely on for long-range or staged development. Many communities have the capability to issue municipal bonds to generate the necessary funds for airport improvements.

Revenue bonds (as opposed to general obligation bonds) are normally used for income-generating self-supporting activities, and, at competitive interest rates, seem the most viable source. Depending on the bond rating and bonding capacity, repayment through bond retirement can be accommodated within the project duration of up to 20 years. One disadvantage, however, is that when the bond issue is subject to voter referendum and approval, unforeseen delays in implementation can make the funding project a victim of rising construction costs, often preventing its completion.

Shopping-List Financing

Shopping-list financing is a commonly used method to subsidize transportation operations that are experiencing financial difficulties. In this approach, a subsidizing agency agrees to accept the responsibility for a given cost item on the capital improvement plan. The current practice of cities and local governments operating and maintaining the access roads and providing utility trunk services to the airport at no cost to the airport is an example of the shopping-list approach. It encourages operators to seek underwriters to support the airport improvement plan.

Lease-Purchase Financing

Capital expenses for airport equipment, runway extensions, navigation aids, and so on, can be met through a lease-purchase program. The airport using this method will prepare specifications for the capital improvement that will be bought or constructed by a private company or a government unit or agency. The facility is then leased to the airport authority at a yearly cost normally below what it would cost to borrow the necessary capital. At the end of the lease period, the title to the facility is conveyed to the airport authority without future payments. The rent over the years pays the total cost plus interest. This arrangement benefits the airport because the cost to the authority is minimal.

Reserve Funds

In the reserve-fund financing approach, funds are accumulated in advance for the needed capital improvement. This accumulation normally comes from interest on savings, funds in depreciation reserves, sale of capital assets, or surplus accruing from operating revenues. Most government units keep some proportion of revenue in reserve for unforeseen contingencies or financing of capital improvements. Where there is no formula as to how to use surpluses in reserve, good politics and money management often dictate that the funds be used to the advantage of the taxpayer. Using such funds for financing airport improvements should be regarded as being in the best interest of the taxpayers in any community.

Special Assessments

Airport improvements are undertaken to benefit the community as a whole, but particular properties and interests are most often the major beneficiaries. Most local or "regional" airports provide service to a significant area beyond their geographical and political areas of influence. The special-assessment approach requires that those who benefit directly finance such improvements through special assessments.

No city or single government unit alone can provide enough nonoperating revenue to finance capital improvement at a regional airport. If an airport's service extends beyond the boundaries of its home region, those cities and counties that benefit should provide a certain portion of the operating and capital improvement costs. Such an arrangement would complement capital improvement funds generated from the local community and elsewhere.

CONCLUSION

State and local agencies, working with the federal government, have provided the United States with the most extensive and best equipped airport system in the world. As a result of Gramm-Rudman-Hollings, the finances of the state and federal government are likely to be stringent in the years ahead. The financing problems of the recent past have stemmed from the inability of sponsoring agencies to convince the public and the politicians that the country's airports are experiencing financial difficulties and, therefore, need both private and public support. Since deregulation and the ensuing flight of the major airlines from the "uneconomic" rural routes, the public has come to appreciate the economic significance of regional airports, and is now inclined to financially support them.

Even in prosperous times, urban mass transit and other transportation systems have successfully used some of these innovative financing arrangements to augment government grants and subsidies. It is reasonable to expect pressure on lawmakers to reexamine their commitments to airport improvement. However, there is no reason why the same financing arrangements that have proven successful in other transportation systems cannot be used by regional airport management with the same success. The potential for funding exists in both the public and private sectors; both sectors complementing each other can make the costs of airport improvements in the United States affordable.

It is recommended that airport authorities and management investigate these sources and determine which approaches are politically and administratively feasible in their states, municipalities, or communities.

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