STRATEGIES FOR ENHANCING REVENUE POTENTIAL OF GENERAL AVIATION AIRPORTS

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Summary

Research has shown that only the larger, major airports are financially self-supporting. General aviation airports seldom bring in enough revenues to meet their costs. Although some small airports ostensibly can cover their costs, in most cases this claim is the product of using accounting practices which disguise costs and do not reflect true financial operation.

General aviation airports should look to all potential revenue sources - fees, concessions, sales taxes, personal property taxes, and government subsidies. Historically, government subsidies have been restricted to capital improvements. These grants usually have strings attached which require the facilities to be maintained. A case is presented that general aviation airports should also be eligible to receive operational subsidies from state and federal governments.

The Problem: Costs Exceed Revenues

The age-old axiom of first recognizing the problem before arriving at a solution is key to enhancing revenue potential. It must be recognized at the outset that relatively few airports are capable of independently paying their own way. In fact, by using regression analyses of data collected by the Federal Aviation Administration, it can be shown that as a group, the only airports having economic independence are the large air carrier hubs. Although air carrier airports larger than non-hub show operating profits, only the large hubs earn sufficient revenues to meet operating and non-operating expenses, and still have the ability to finance large capital improvements. Large hub airports have broad concession and commercial/industrial revenue bases normally not found at the smaller airports. All airports other than large hub show decreasing ability to operate without some form of subsidy -- in other words, tax support. As airports decrease in size, their marginal propensity to pay for non-operating and capital investment expenses diminishes, until finally in the non-hub and general aviation categories they no longer are able to pay for even the operating expenses. At a general aviation airport where only aviation service and training take place, there is little likelihood of the airport sustaining its own operation. Service and training airports are not expected to break even in operating expenses until they have attained well over 600,000 annual operations. As a practical matter, this means that truly general aviation-oriented airports may never be able to pay their way. The expected break-even point does not occur until some time after activity has reached air traffic saturation.

It is statistically inferred that it requires more than directly related aviation activities for an airport to pay its way. It takes substantial non-aviation related commercial activities. Industrial land uses and concessionaire activities have been the traditional sources of non-aviation related revenue. But there may not be enough room for industrial activity on the airport property, or not enough activity to support non-aviaiton concessions which could, in turn, produce more money.

It takes money to run a business; it takes money to run government; and it takes money to run an airport. "Revenue" is more than just user fees or income derived from concessionaire and land leases. Revenue, broadly defined, is all sources of funds including taxes and other income collected by government for public use. That is, governmental subsidies from the general tax fund or from the federal aviation trust fund are also potential sources of revenue and should be treated as such. In this same vein, both personal property taxes collected from aircraft ownership and possessory interest taxes for private use of government-owned lands represent revenue derived from airport users. Although it is recognized that the latter are usually committed to non-aviation uses such as schools and other community needs, they nevertheless represent a revenue source to the community. Is it not an equitable exchange for the community to subsidize the airport by an amount equal to the aviation-related personal property and possessory interest taxes where such funds are necessary for substained operation of the airport?

Proving The Need: Accounting Practices

The underlying issue in obtaining sufficient revenue to operate an airport is not only generation of increased business activity but also one of selling the need for additional tax support. That need must be made apparent, and not hidden by false accounting practices that show the airport operating at a profit, when in fact it operates at a substantial deficit. The need for financial assistance must be readily apparent to the public in order to defend and justify increases in their user fees. Elected officials must be equally aware of the airport's financial needs if they are to authorize expenditure of public funds at what many consider to be a special interest facility.

Like their larger air carrier counterparts, smaller, general aviation airports should have their own independent accounting system. For example, an enterprise account can be used and, from it, a profit/loss statement can be derived that accurately demonstrates the airport's true profitability. When a general fund account is used for an airport, which is all too often the case, many of the actual airport related costs get buried in the budgets of supporting agencies and departments. These hidden costs lead to false impressions of operating profits.

Subsidies

It is recognized that it is the airport sponsor's responsibility to generate sufficient revenue to operate its airport. But at a typical general aviation airport, user fees cannot be increased enough for the airport to become self-supporting. Small airports simply cannot pay their way, and increasing airport charges is not the final answer. Subsidies are required.

But who should subsidize the operation of the airport? Should the users who generate the costs be compelled to pay the entire costs? Or should it be the local government? Is it "cost allocative" for airport support to be paid out of general tax collections? Taxes obligated in this way are compulsory upon many who do not use the airport, or who do not feel they personally benefit from it. On the other hand, it is justifiable if the community as a whole enjoys the benefits of having an airport. But, there may be a more allocative way to financially assist airports; allocation in this case being defined as "user pays".

The responsibility for developing and operating publicly owned airports can best be described as an exercise in circular policy. Ultimately, the airport belongs to the local airport sponsor, but planning and development of public airports rely heavily upon financial aid from the federal government. The strings the federal government attaches to federal airport grants are twofold. The government 1) outlines the requirements for airports and determines where federal monies (generated from aviation user taxes) may best be spent, and 2) demands guarantees from the airport sponsor that the airport will operate in accordance with the federal standards and specifications, and in accordance with federal grant agreements.

Federal Financial Assistance

In most cases local airport sponsors have no choice but to turn to the state and federal governments for financial aid. In exchange, these local bodies must maintain their airports to the satisfaction of the state and federal governments.

The federal government has considerable authority over how the airport is run, but does not necessarily share responsibility for the airport's fiscal liabilities. The Federal Aviation Act of 1958 vests the federal government with sovereignty in aviation matters. Numerous court cases have upheld that sovereignty while holding the airport proprietor responsible for any consequences that may attend the operation of a public-use airport.

The average small general aviation and non-hub air carrier airports (the ones that need federal help the most) barely break even in their operational budgets and operate at a deficit when capital costs and other non-operating expenses are considered. Federally imposed programs and standards often force the local airport sponsor into an even greater deficit. Thus, a question that arises is, how much fiscal accountability rests with the federal government in such situations?

In the past, regional airlines have been subsidized to fulfill federally sponsored air transportation objectives, and currently some commuter air carriers are eligible for federal subsidy. The airports that serve them should also be eligible for operational subsidies.

A concept that can be traced back to the 1950's, but which was not fully explored until the 1960's, entailed a redistribution of federal budget surpluses to relieve local governments of increasing revenue raising burdens. This concept is revenue sharing, wherein the power and resources of federally sponsored programs are transferred to the local government. In other words, surplus federal money can be used by local governments. Where categorical grants are oriented primarily towards specific capital improvements (runways, taxiways, etc.), the aims of revenue sharing are toward broad discretionary use of federal funds for which local governments find a need.

The intent, then as now, was to divert more federal activities to the local levels, and to give more responsibility to the local government in determining how and where funds could best be spent. The revenue sharing program went through Congress in the form of the State and Local Fiscal Assistance Act of 1972, and provided for what was commonly known as "General Revenue Sharing". The intent behind the act was to allocate federal funds for broadly stated purposes in order to help states [illegible]lities overcome the fiscal crises caused by [illegible] bases. It is this same [illegible]ts many smaller

The State and Local Fiscal Assistance Act was initially good for five years but due to its popularity was extended through 1982. The provisions of the act did not evolve into a no strings attached program, but did contain broad guidelines and priorities established by Congress to ensure that funds would be used to promote social objectives of national interest. Congress intended that:

- Funds be used to relieve state and local governments of severe financial problems;
- The program be more flexible than with categorical grants; and
- The program not displace categorical assistance.

The categorical grant program most often associated with airports emanates from the old Airport and Airway Development Act, and now from the Airport Improvement Program. Congress determined that the nation's airport and airway system was inadequate to meet current and projected growth in aviation, and that substantial expansion and improvement of the airport and airway system were required. As a result of that finding the Airport and Airway Development Act of 1970 was enacted.

The hallmark of the 1970 Act was its attendant provisions in the Airport and Airway Revenue Act providing for the imposition of an airport and airway user charge. The users of the airport and airway system would be taxed directly to pay for improvements to the system.

Traditionally, aviation trust fund money has been used for specific capital improvement grants, just as other non-aviation related federal funds have been used for non-aviation related categorical grants. In the aviation and non-aviation sectors alike, categorical grants do not serve all of an agency's fiscal needs. In fact, sometimes maintenance and upkeep of facilities built with federal grants result in additional and unbudgeted operating expenses. Congress responded to the needs of local officials in the non-aviation sector by passing the State and Local Fiscal Assistanct Act. Many of the funds provided by general revenue sharing have been used explicitly for operations and maintenance. It would be benefical, and make good sense, if Congress would provide similar legislation for needy airports in future revisions of airport improvement legislation.

Conclusion

Simply stated, many of the smaller general aviation and air carrier airports need financial assistance to help them pay for escalating operating costs. Federal funds are needed for runways and taxiways, but financial assistance is also needed for maintenance of those runways and taxiways, and for crash, fire and rescue, police and other direct operating costs. The results of recently completed studies by the Federal Aviation Administration indicate that pavements are not being maintained according to the terms of the grants that authorized their construction. However, where the money for fog seals, slurry coats, and other preventative maintenance costs will come from is not clear.

It would be reasonable to use aviation trust fund monies for operating costs as well as for capital improvements. What could be more pragmatic, and what could be more allocative in principle than for the airport users themselves to pay for subsidies to needy airports?