

VII. FINANCIAL PLAN

This section presents the Airport's operating and capital budget including cost/expense controls to be maintained by the Authority, and other sources of funding (both short and long term) identified.

In addition, the feasibility (and viability) of continuing to provide existing products, services, and facilities, expanding the same, and/or developing new products, services, and/or facilities is also examined.

Financial Overview

The primary duty of the Airport is to provide a safe environment for aircraft to operate.

If the finances of the Airport are not responsibly managed, then the Airport manager may reduce the level of safety that could otherwise be available or will be unable to fulfill the primary duty.

The Airport manager must fulfill many roles and responsibilities with respect to finances. Regardless of whether the manager personally oversees the financial management or delegates the duty to another staff member proper financial planning and management is still the manager's ultimate responsibility.

The manager must ensure the Airport has enough operating revenue to achieve its mission in accordance with the values of the Airport. The use of Capital and investment funds, generation of revenue and expenditure allocations while staying within the limitations of the budgetary process are the primary areas of consideration for a manager.

Airports are unique in that they are considered both a governmental entity and a business enterprise. Many are considered Enterprise Funds from a budgeting perspective and must be managed from a business frame of reference. This often conflicts with public governing agencies unless their policies and procedures address the separate and unique budgeting requirements of an Enterprise Fund. Government agencies operating the Airport directly must be cautious in the distribution and collection of funds, as it has been shown that airports governed directly by a city or county have a higher percentage of misuse or commingling of Airport and non-Airport tax revenue funds.

The FAA requires all revenue generated by the Airport to be used for the operation of the Airport. This includes revenue generated from: local taxes on aviation fuel, the sale, transfer or lease of real property, the right to conduct an activity on the Airport, air carriers, tenants and from any on-Airport use of property (not acquired with Federal funds) that is not being used for an aeronautical purpose.

Revenue diversion occurs when the Airport uses revenue for a non-aeronautical purpose or when the Airport charges less than full market value for leased space.

Revenue diversion is just one of the ways an airport differs from other departments within a governing agency such as a city or county. Often times, an airport will be unjustly restricted from operating to its fullest capabilities by city or county budgeting policies, that fail to address the unique financial and operating requirements of an airport. St. Louis Regional Airport has the benefit of operating with an Airport Authority and is therefore less likely to commingle funds or use Airport funds for other than Airport purposes.

Federal law requires that the Airport be as self-sustaining as possible and many airports are financed strictly from their operating revenues and Federal AIP funding - they do not receive tax revenues of any sort. These airports often have the freedom to operate more as a business entity using both their government resources and entrepreneurial strengths to generate the maximum benefit from the Airport to the community (increased jobs, more money into the local economy, etc).

The FAA concept asks the Airport to benefit the community through its own entrepreneurial methods, rather than rely on the taxes of the surrounding community. Whether or not an airport can be self-sufficient is largely determined by its geographic location, its ability to expand, the property available, its economic potential and the community surrounding the airport. This is an area of concern for St. Louis Regional Airport as part of the annual budget comes from general fund tax revenues.

Additionally, airports are considered proprietary in nature with the Airport manager acting as the proprietor who must oversee the business as if it were a private operation.

As previously stated, the Airport is partially supported by tax dollars. It is the goal of the Airport to identify alternate revenue sources to take the Airport off of the tax-funded roles. The Airport manager must break down the financial function into three distinct roles. The role of "finance manager" depends on long-term capital investments and improvements, which are very dependent on external functions such as national and local economic conditions and the market. The role of "budget manager" is concerned more with revenues and expenditures necessary to operate the Airport on a day-to-day basis. The role of "accountant" is concerned with the record keeping of the monies involved, which is particularly important for managing Federal funds.

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Financial Statements

The Airport's financial status is reflected in its financial records, which are usually at least comprised of the Balance Sheet, the Income Statement, and the Cash Flow Statement.

The balance sheet summarizes the financial position of the Airport at a point in time and lists the Airport's assets and liabilities.

The income statement measures the amount of revenue and the expenses involved with the Airport's operation over a period of time.

The cash flow statement shows the actual cash in and out of the Airport over a period of time.

This Strategic Business Plan does not attempt to conduct a financial analysis or audit of the Airport's finances. Audits conducted for the past 2 years showed no known deficiencies at St. Louis Regional Airport that require reporting to government agencies or major changes to the accounting methods or procedures. This Strategic Business Plan does suggest certain financial controls and measures that may enhance the airports revenue stream and improve the efficiency of financial processes.

Budget

There are several types of budgeting techniques. The most common to airports are Capital Budgeting, Traditional Budgeting, Cost-Center Budgeting, and Line Item Budgeting.

Capital budgeting is used by most airports to manage their capital projects and equipment. Larger airports typically use Line Item budgeting, the most detailed of all budgeting techniques, while airports organized under a city or county typically use traditional budgeting. Traditional budgeting usually results in a year-end spending spree to ensure the same or higher allocation for the following budget year. This system frequently doesn't reward a thrifty manager for cutting costs or efficiencies.

Fund Accounting (mixed with cost center) is currently in use at St. Louis Regional Airport. With the Airport organized under an Airport Authority this method allows the Airport governing body itself to best determine the areas of expenses compared to revenue sources, and to adjust accordingly. Cost-center budgeting also rewards management for cutting expenses and operating at higher efficiencies by directing revenue-generating efforts at areas where the most expenses are incurred.

Budget Process and Monitoring

Proper budget monitoring consists of several activities including audits (which should be performed annually), year-end budget results (GAAP guidelines) demonstrating projected versus actual expenses and revenues, a summary of fund balances and transfers, an accounts receivable report and included in the documentation, depreciation of Airport capital assets. A graphic representation is also helpful for Airport commissions and board members in visualizing actual budget performance.

Cost/Expense Controls

Cost/Expense controls ensures the Airport can operate on a day-to-day basis without the undue burden of seeking Authority control for routine expenditures, but does allow the limits to be exceeded with Authority approval when necessary.

Presently, the Airport manager drafts the annual operating budget, which is then approved by the Authority. Items not planned for in the budget must be brought to the Board for consideration and approval. This is a tried and true practice, which ensures proper money allocation and management.

In the post-September 11th world, airport finances, both general aviation and air carrier are in a precarious state. Airport managers and the industry in general are unsure of what new expenses will be required for securing their facilities. It is therefore, a good management practice to follow certain principles during uncertain economic cycles, such as is occurring presently.

If another terrorist attack is executed using aviation, specifically general aviation, airports across the United States can expect quick and costly changes to their ways of doing business. Additionally, the Transportation Security Administration is presently considering security regulations for general aviation aircraft and airports. To prepare for future regulations, airports should take proactive measures in terms of financial planning and security enhancements.

Therefore:

- The Airport will closely monitor its maintenance and operating expenses and take measures to keep cash assets readily available. While the Airport is restricted from stockpiling large amounts of cash on an annual basis, it should take measures to ensure cash assets are available for use when needed. It is important to remember that security enhancements put into place after a terrorist attack, are often required immediately and the Airport may be in a position to borrow funds, if cash is not available to meet regulatory measures.
- The Airport will encourage proactive management in terms of keeping abreast of the actions of TSA and other laws and initiatives that could affect security on St. Louis Regional Airport. Proactive management also means providing input on general aviation security issues to the appropriate agencies such as TSA, the American Association of Airport Executives (which has been at the forefront of developing guidelines and suggested regulatory measures for GA facilities) and federal, state and local elected officials. The Airport Manager will also understand the market, keep adequate resources available to meet the needs of the tenants and users and closely monitor cash balances.
- The expansion of the regional jet has created new markets in many smaller communities. While this business plan is not a schedule air carrier study, the Airport should continue to watch the growth of the market and stay alert for potential market opportunities, so that when identified, they can be properly assessed.

Sources of Funding

Assessment of Current Lease Rates and Charges

Oftentimes, the solution to the problem of low or inadequate revenue is a matter of ensuring the Airport is charging fair market rents.

Market rent ensures fairness in the leasing policy, and that the Airport is receiving a maximum return on its leases and fees.

A complete market rent study identifies comparable airports and leaseholds on airport properties, assesses similar land and improvements and use (commercial, Non-commercial, aeronautical, and non-aeronautical). It takes into account key attributes (size, location and access, type, quality, and conditions).

Adjustment of rents is usually periodic throughout a lease term or when options are exercised (if granted).

Fees can be set on a cost center (or compensatory) approach through a rates and charges analysis, comparing certain benchmarks and other competitive airports. Fees identify and quantify the costs to develop, operate, and maintain the airport. This includes all operating, maintenance, and development-related costs, debt service, capital outlays, reserves, and amortization. Revenues are deducted from costs. Fees are charged to airport tenants, consumers, and users (on a proportionate basis) to close the gap between revenues (rents) and costs. A combination of fees can be charged.

The types of fees available are:

- Fuel flowage fees
- Landing fees
- Based aircraft fee
- Ramp fees
- Permit fees
- Commercial Use/Operating Permits
- Application or processing fees
- Annual fee (based upon type of activity)
- Temporary Permit (special events)

Fees are usually adjusted annually (based upon fiscal budget), deficits are carried forward and surplus is used for capital improvements or carried forward. Fees should not be imbedded in long term agreements (without “subject to change” language). A separate fee schedule should be developed and referenced in lease and user agreements.

Non-Airline Revenue Generation

Permanent or long-term options include:

- **Fueling**
The Airport can elect to provide fueling services (direct) to the tenants or operate self-serve fueling islands (indirect) and develop fuel storage facilities
- **Easements**
The Airport can ensure it charges for easements, temporary and permanent for Land or utilities, Fiber optics and cell phone towers.
- **Contract services (for lessees or others)**
The Airport can provide facility, vehicle, and equipment maintenance to lessees and others, often at a reduced cost in personnel and equipment.

In addition, the Airport can offer its services for landscaping and snow removal on leased property. This ensures these activities are done to the Airport's satisfaction and creates another revenue stream.

- **Agriculture (farming) – crops**
The Airport already takes advantage of this option and should continue to do so until land is needed for other development and can be leased or sold for a higher value.
- **Vehicle and equipment storage**
Not traditionally favored by the FAA, vehicle and equipment storage is another revenue source. Ideally, there should be available space that cannot be used for aeronautical purposes, such as hangars, aircraft parking or aviation businesses.
- **Conference center (hotel and golf course)**
Airport facilities can sometimes accommodate business conferences usually in cooperation with local area hotels and golf courses.

The Airport can make some of its meeting space available on a short-term scheduled basis (with the Airport having a right to cancel or change schedules on an emergency or short-notice basis) and advertise to corporations looking for small corporate meeting or conference space, particularly companies looking to get away from their normal place of business, but who do not want to spend the money or take the time to go too far away. Airports must weigh the option of steady long-term revenue source with staff and administrative requirements necessary to support the room rentals.

- **Retail, commercial, or industrial center**
St. Louis Regional Airport has already taken advantage of this opportunity and should continue to look for additional uses of non-aeronautical property.

Temporary

- **Special Events**
The Airport terminal building (after renovation) and other facilities (administrative buildings, hangars) can often be used for special events including dances, corporate celebrations or parties, small concerts, commercial filming, and receptions.

Short Term

There are presently two parcels of property ready to be leased for corporate hangar development. These are anticipated to bring in approximately \$12,000 annually based on 3 acres leased at \$0.14 per square foot annually.

An additional source of revenue for airports is a ramp fee of no less than \$5 per aircraft. The fee is collectable by the FBO with no less than \$3 going to the Airport. The remaining \$2 per aircraft is to compensate the FBO for the administrative costs of collecting and managing the fee. Based on transient traffic for the past year, this could net an additional \$97,000 per year. However, surrounding airports do not charge a ramp fee and for St. Louis Regional to charge the fee would be considered a competitive disadvantage. At this time, the Airport will not implement ramp fees, but remains open to the concept as an additional source of revenue.

Based-Aircraft fee

A normal source of revenue for airports is a based-aircraft fee, normally of not less than \$30 per based aircraft. In this case, the Airport would only see a revenue increase of approximately \$3480 per year and with the Airports desire to attract additional based aircraft it is not the intent of the Airport to charge a based-aircraft fee at this time.

Other fees should be assessed to determine if they are viable sources of revenue, compared to the potential for lost business due to the charging of the fee.

Long Term

Federal and/or state grants will be utilized for long term funding for eligible projects.

The Airport will renegotiate the “through-the-fence” agreement with the off-Airport operator. The current agreement expires in 2004 and no other provisions are made for paying for access to the Airport. The FAA often looks unfavorably on through-the-fence agreements due to the Airport’s loss of control over aeronautical use property reducing the Airports ability to enforce safety and security standards, and due to the loss of revenue from revenue producing property.

The Airport will attempt to negotiate a rate roughly equivalent to the rate a straight ground lease of the parcel would obtain. Failure to do so would result in a nearly \$60,000 Airport budget deficit.

The Airport will research a development plan for the adjacent office park for potential long-term revenue.

Conclusion

The Airport will assess new sources of non-airline revenue to determine the best methods to generate new revenue.