7. Financial Feasibility

As detailed in Chapter 6, *Implementation Plan*, the Wilkes-Barre/Scranton International Airport (AVP or Airport) Master Plan Update (MPU) sets forth a long-range Airport Capital Improvement Plan (ACIP) that can accommodate forecast demand levels at the Airport. This chapter explores the financial implications of implementing the preferred alternative of the MPU in the short-term in the following sections:

- Short Term ACIP Project Costs
- Sources of Funding and Project Eligibility
- Airport Financial Analysis
- Options to Enhance Airport Operating Financial Performance

The focus of the analysis described in the sections that follow is the ability of the Airport to fund the preferred alternative and ACIP projects identified for the short-term.

7.1. SHORT TERM ACIP PROJECT COSTS

The ACIP for projects at AVP during the short-term period (2018-2022) is summarized in **Table 7-1** showing estimated Federal Aviation Administration (FAA), State, and Local shares. These projects represent the highest priority for the Airport over the next five years.

Table 7-1: Short Term Capital Project Costs (Thousands)

Project	Total Cost	FAA	State	Local
Phase I: (2017-2021)				
Rehabilitate Taxiways B & D-West/Construct/Phase III	$5,200	$4,680	$260	$260
Rehabilitate RW 10/28 & TW D East - Design	$419	$377	$21	$21
Taxiway B Southerly Extension – Environmental/ Preliminary Design/Phase I	$416	$374	$21	$21
Rehabilitate RW 10/28 & TW D East - Design	$563	$506	$28	$28
Rehabilitate Access Road (Terminal Drive)	$625	$563	$31	$31
Rehabilitate RW 10/28 & TW D East - Design	$3,925	$3,533	$196	$196
Taxiway B Southerly Extension - Final Design Phase II	$998	$898	$50	$50
Taxiway B Southerly Extension – Construct Phase III	$5,750	$5,175	$288	$288
Phase II: (2021-2022 only)				
Taxiway B Southerly Extension – Construct Phase IV	$3,850	$3,465	$193	$193
Taxiway A Relocation to Extended Taxiway B–Design/ Phase I	$150	$135	$8	$8
Total Short Term (2017-2022)	**$21,895**	**$19,705**	**$1,095**	**$1,095**

Source: McFarland Johnson, 2017.

As shown in Table 7-1, the estimated local match for approved projects in the ACIP total nearly $1.09 million through 2022, which is an average of about $219,000 annually.

The breakdown of funding represents an FAA share of 90 percent for eligible projects through the FAA Airport Improvement Program (AIP), and State and local shares each of five percent. To obtain FAA funding for these projects, the Sponsor must submit and/or update its five-year ACIP to the FAA on an annual basis. The annual ACIP update process is the FAA's mechanism for prioritizing its funding program on a State-wide basis, and considers system-wide issues such as safety and capacity.

7.2. SOURCES OF FUNDING AND PROJECT ELIGIBILITY

To cover project costs as well as the local share, AVP has several ways in which to fund projects. They are summarized in the following sections.

- FAA Grant Funding
- State DOT Grant Funding
- Local Funding Options

7.2.1. FAA Grant Funding

The breakdown of funding as shown in Table 7-1, represents the following breakdown for projects eligible for funding through the FAA AIP for AVP:

- FAA Share - 90%
- State Share - 5%
- Luzerne and Lackawanna Counties Share - 5%

For public-use facilities like AVP, the FAA AIP provides up to 90 percent funding for public, non-revenue generating elements of the airport such as runways, taxiways, aprons, and lighting, as well as necessary planning and environmental studies. The remaining 10 percent is typically split between Luzerne and Lackawanna Counties and the Pennsylvania Department of Transportation (PennDOT). FAA funding available for the AVP capital program is as follows:

- **Entitlement Funds:** The Airport receives entitlement funding from the FAA based on the number of passengers that are enplaned at the airport annually. Entitlement funding is applied to projects eligible for federal funding.

- **Discretionary Funds:** Funding above the entitlement amount is then obtained from the FAA through discretionary funding. It should be noted that discretionary funding is competitive. Therefore, AVP competes for these funds nationally as well as with regional airports.

7.2.2. State DOT Grant Funding

PennDOT provides funding for airports in the State through the administration of four programs: the federal Block Grant Program (BGP), the state Aviation Development Program (AFDP), the state Capital Budget/Transportation Assistance Program (TAP), and the Real Estate Tax Reimbursement Grant Program. Since AVP is designated as a primary commercial service airport in the NPIAS, the Airport is not eligible for BGP funding.

Key aspects of the programs AVP is eligible for are as follows:

- **Aviation Development Program:** The State Aviation Development Program is funded through the collection of state taxes on jet fuel, and the revenues are deposited into Pennsylvania's Aviation Restricted Account to preserve, upgrade, and build new facilities. The amount available for funding through the ADP averages approximately $6 million annually.

  These funds are typically used to pay for up to a maximum of 75 percent of the total eligible project costs and 50 percent of the non-federal share of federally funded projects.

- **Capital Budget/Transportation Assistance Program:** Appropriately licensed Public-Use airports are also eligible to receive Transportation Assistance Program funding. This funding comes directly from the state's General Fund for the purposes of improving the state's aviation infrastructure.

  Projects receiving funding may receive up to 75 percent of the non-federal amount for federally eligible projects and a state reimbursement of up to 50 percent for non-federally eligible projects.

- **Real Estate Tax Reimbursement Program**: The Real Estate Tax Reimbursement Program is funded through the collection of a state tax on avgas, which is deposited into the state's Aviation Restricted Account. The program allows for annual reimbursement of local real estate taxes paid by qualifying public airport owners.

  Reimbursement is limited to local real estate taxes paid only on those areas of airport property that have a direct aviation-related use.

7.2.3. Local Funding Options

The local share for federally-funded projects at AVP is five percent. AVP has several options to fund their local share, which are summarized in this section.

Passenger Facility Charges (PFC)

With oversight from the FAA, AVP has the authority to impose PFCs up to $4.50 for each passenger enplaning at the Airport. PFCs are collected by the air carriers on behalf of the airport and are remitted monthly. AVP has been utilizing PFCs since 1993, with a current program in place through June 2026 at the current FAA-approved level of $4.50 per enplanement.

PFCs can be utilized on projects that are considered AIP eligible, as well as for additional improvements to the passenger terminal. A summary of eligible uses of PFC revenues include:

- All or part of the allowable cost of an FAA approved project;
- Debt service and financing costs associated with bond issuance; and,
- Combined with AIP and Aviation Capital Grants on eligible projects as the local match to reach 100 percent funding.

To be considered eligible for PFC funding, projects must meet certain criteria and address one or more of the following:

- Preserve or enhance safety, security or capacity of the national air transportation system;
- Reduce noise or mitigate noise impacts resulting from an airport; and,
- Present opportunities to enhance competition between or among air carriers.

While the PFC program is complementary to Federal airport grant programs, there are limitations and restrictions. Most notably, medium and large hub airports that impose a PFC charge face a reduction in the AIP apportionment funds they would normally receive.

To fund new projects added to the Airport CIP from this Master Plan, the existing PFC program at AVP can be amended or extended by following the FAA application projects.

Airport Operating Revenues and/or County General Funds

AVP has the option to utilize any operating surplus income or contributions from Luzerne and Lackawanna County general funds to fund airport improvements. Depending upon the financial performance of the Airport, and general fund levels for its County sponsors, such funding may not be available consistently. Therefore, funding projects through AVP operating revenues or County general funds are likely most appropriate to bridge gaps in federal, state, and PFC revenue for eligible projects, or for projects that are not eligible for grant funding.

Private Funding

For AVP, there are several projects identified in Phase III of the ACIP (2027-2036) that are most appropriately funded by private interests, such as GA hangar development. These types of projects are most appropriate for private funding because airports are not often positioned to spend limited public resources on speculative projects.

However, in some instances project funding can be mobilized more quickly by partnering with private interests to advocate for state tax incentives or job creation tax credits if the projects are of a substantial scale and scope. In this way, AVP can partner with private interests to broker development deals that will benefit the Airport over the long term by increasing operations, utilization of other on-airport maintenance providers, and fuel sales.

Public Financing or Bonding

For large projects that are not eligible for federal funding but may have widespread local public impact and interest. Airports frequently utilize capital market bonds to finance long-term construction projects. There are four basic types of municipal bonds available to AVP: general obligation (GO) bonds, general airport revenue bonds (GARB), PFC-backed bonds, and special facility bonds. Bond proceeds are the largest sources of funds for airport capital needs, accounting for approximately 54 percent of the total[1].

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[1] Airports Council International – North America

A summary of these bonds is as follows:

- **GO Bonds:** Supported by the overall tax base of the issuing entity (the airport sponsor), GO bonds often carry the lowest interest rate.
- **GARB:** Repaid by the revenues generated by the airport, or other revenues as defined in the bond indenture, GARBs are the most common form of airport debt.
- **PFC-Backed Bonds:** Either stand-alone or “double-barrel”, PFC-backed bonds are backed solely by PFC revenues or by PFC revenues and other airport revenues generated by rentals, fees and charges. General airport revenues can be pledged as a backup if enplanement activity decreases and PFC revenues do not meet the obligation.
- **Special Facility Bonds:** Special facility bonds are used to construct a terminal or facility for a named airline, and are backed by lease payments which are structured to cover debt service to the bonds.

Depending on the nature of the projects being financed by the airport, most bonds are considered a special form of municipal bonds called private activity bonds (PABs). Often times, PABs are subject to the Alternative Minimum Tax, thereby raising the return demanded by the investor and the financing costs for the airport.

A recent ACI-NA survey indicated that large hub airports were anticipating financing 58 percent of planned projects through bonds, medium hubs at 23 percent, and small hubs at 22 percent.

7.3. AIRPORT FINANCIAL ANALYSIS

This section describes and summarizes the analysis performed to estimate the impacts of pursuing the preferred alternative on the Airport’s short term financial performance. The analysis considers the Airport’s ownership and financial structure, business policies, rates and charges, and current tenant and user agreements that drive revenue.

The analysis concludes with forecasts of future financial performance under two scenarios: a baseline condition and the preferred development alternative. The baseline scenario forecast assumes that no changes are made and no new projects are pursued. The baseline scenario forecast is sometimes referred to as a “do nothing” scenario, and serves as a basis of comparison for the preferred alternative scenario. The preferred alternative scenario presents an estimate of future financial performance that may be anticipated with implementation of the preferred alternative.

The analysis performed is described and summarized in the following sections:

- Airport Governance and Financial Structure
- Commercial and General Aviation Business Policies
- Airport Revenues from Lease Agreements and Tenant Fees
- Historical Operating Revenues and Expenses
- Forecast of Baseline Airport Operating Financial Performance
- Forecast of Preferred Development Operating Financial Performance

7.3.1. Airport Governance and Financial Structure

AVP is co-owned by Lackawanna and Luzerne Counties, and is directed by a six-member Bi-County Board of Directors. The Board consists of the Lackawanna County Commissioners and three representatives from the Luzerne County Council, which includes the Luzerne County Manager. Ownership by Lackawanna and Luzerne Counties makes each County responsible for the Airport and its obligations, which offers some benefit in terms of sharing risk and obligations. Equal membership by both Counties on the Board ensures that each county has the same voice in oversight and decision-making.

Since Lackawanna and Luzerne Counties established this ownership structure, the Airport has evolved into an autonomous and self-supporting operation, functioning like an independent enterprise without financial support from either County to operate[2].

Looking forward, funding the ACIP will require significant local/sponsor funding. Since the Airport is not a municipal authority, the Airport is not positioned to utilize certain financing options and must rely on Lackawanna and Luzerne Counties willingness to meet the Airport's capital funding need. In this way, financing obstacles could arise that may hamper the long-term ability of the Airport to implement much-needed facility improvements and capitalize on growth opportunities.

7.3.2. Commercial and General Aviation Business Policies

AVP maintains policies that provide structure to the operating environment at the Airport and protect the interests of the Airport and the public. These policies govern the operations of airlines providing scheduled commercial passenger service and general aviation businesses offering services to aircraft operators and the public. At AVP, policies include minimum standards, requirements for aeronautical business operators, and lease and use agreements with airlines. A cursory review of these policies was performed, and is summarized in the following sections.

Minimum Standards

The objective of minimum standards as set forth in FAA (Advisory Circular 150/5190-7, *Minimum Standards for Commercial Aeronautical Activities, 2006,* "AC 150/5190-7") is to promote safety in all Airport activities, protect Airport users from unlicensed and unauthorized products and services, maintain and enhance the availability of adequate services for all Airport users, promote the orderly development of Airport land, and ensure efficiency of operations. Additionally, for public-use airports that accept federal grants through the FAA's AIP program, minimum standards also aid those airports in complying with FAA grant assurances pertaining to Economic Discrimination (Grant Assurance 22) and Exclusive Rights (Grant Assurance 23).

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[2] Lackawanna County and Luzerne County each contribute to the pension fund for Airport employees.

Minimum standards at AVP set the threshold of entry for current and future operators, such that they are applied objectively and uniformly, and avail the opportunity to any entity that can meet the standards provided suitable space is available for the conduct of the operation.

The Minimum Standards in place at AVP (Adopted October 30, 2014) are thorough and well-organized, clear, and comprehensive, defining requirements for:

- All Aeronautical Service Providers
- Part 91 Aircraft Operations – Not for Hire[3] and Part 121 Aircraft Operations
- Full-Service Fixed Base Operators (FBO)
- Specialized Aeronautical Service Operators (SASO)

The minimum standards also detail requirements for an operator business plan, insurance, application procedures, and the timeline and process for application and approval.

Aeronautical Business Operators

Several policies included in the minimum standards apply to all aeronautical service providers at AVP, except non-commercial Part 91 operations, military operations, and airline operations, where noted. A snapshot of these policies includes:

- Written Operating Agreement, Lease Agreement, and/or Approved Sublease Agreement;
- Lease Building or Hangar Space from the Airport; Lease Ground Space for Construction of Building; or, Sublease Building or Hangar.
- Premises Open/Services Available Eight Hours/Day, Five Days/Week, 52 Weeks/Year.
- Obtain and Comply with necessary Licenses, Permits, Certifications, and/or Ratings
- Compliance with applicable Federal, State, and Local Design and Construction Regulations and/or Codes.
- Vehicles must have Permits, Required Registrations, including Permits for Operation on the Airport Operations Area (AOA).
- Comply with all Applicable Requirements of AVP's TSA-approved Airport Security Plan and FAA-approved Airport Certification Manual.

Entities interested in operating an aeronautical business at AVP must comply with Airport minimum standards, and submit a complete application to the Executive Director for consideration. The application includes minimum standards for a business plan, insurance, and security identification display area (SIDA) application, which notifies applicants of policies and the process for background check and fingerprinting.

Signatory and Non-Signatory Airline Agreements

AVP also has lease and use agreements in place with airlines providing scheduled passenger service, which set forth rights and obligations to air carriers operating at the Airport.

[3] Including Military Operations

Two types of agreements are in place: signatory and non-signatory lease and use agreements, as follows:

- **Signatory Airline:** As described in the FAA's *Airport Compliance Manual, Order 5190.6B*, a signatory airline is one that commits to a long-term agreement with an airport, leasing space in airport facilities that supports the development and operation of the airport. The debt for airport facilities is typically secured by signatory tenant leases. In return for their financial commitment, signatory carriers may have a rate, fee, and rental structure that differs from non-signatory carriers that choose not to make the same financial commitment.

- **Non-Signatory Airline:** A non-signatory airline does not make the same commitment to the Airport, which is often on a month-to-month term basis and with a separate rate, fee, and rental structure for the use of airport facilities. Obligations for non-signatory carriers are generally less restrictive than that imposed on signatory airlines; however, rights of use for spaces in the terminal building are assigned by the Airport and can be less preferable than space allocations negotiated by signatory airlines.

The Airport has signatory agreements with Delta Airlines, American Airlines (American Eagle, regional airline), and United Airlines (CommutAir, regional airline operating on behalf of United Airlines as United Express), and a non-signatory lease and use agreement with Allegiant Air.

7.3.3. Airport Revenues from Lease Agreements and Tenant Fees

Aeronautical operators at AVP are obligated to pay to the Airport a variety of charges and fees associated with their activities. Charges and fees are based on rates established by the Airport, but can be the subject of negotiation with operators. Rates and charges of fees at airports can vary, but often consist of the following:

- Rent for Terminal, Hangars, Parking, and Building Facilities
- Rent for Undeveloped Land
- Aircraft Landing Fees, Parking/Ramp, and Tie-Down Fees
- Commissions on Fuel Flowage, Operating Revenues, Aircraft Managed/Brokered/Sales

Land and facilities at AVP represent the Airport's most valuable revenue-generation assets. This is evidenced by the portion of operating revenues associated with rent and fee payments made to the Airport by tenants of existing facilities. A summary of operating revenues anticipated from facility rents and tenant fees budgeted for 2017 is presented in **Table 7-2**.

Table 7-2: Summary of Facility Rents & Tenant Fees

Facility Rents & Tenant Fees	2017 Budgeted Revenues
Terminal Space Rental	$1,071,581
Rental Car Parking Space Rental	$30,322
Ground Rental – Hangars	$232,187
Ground Rental – Commercial/Industrial	$208,947
Tenant Fees[1/]	$1,085,562
Total	$2,628,599
2017 Budget Operating Revenues	$5,905,065
Percentage of 2017 Operating Budget	45%

Source: Airport Management, 2016

[1/] Tenant fees include: passenger parking, restaurant, advertising, restaurant, and other miscellaneous tenant fee revenues. Revenues from fuel are not included.

As indicated, revenues generated by these facilities at AVP and tenant business activity that drive fees represent a significant portion of the Airport's operating expenses. These revenue streams are critical to the long term financial performance of the Airport, especially as it relates to the sponsor's ability to self-fund or finance the short and long term ACIP.

A review of existing leases[4] in place at AVP was conducted to evaluate whether the lease agreement strengthens or weakens the Airport's financial position. For the purposes of this review, relative financial strength results from the right balance of terms that remunerate the Airport for use of the facility and incentivize the lessee to be successful and commit to the Airport for the long term. Conversely, weak lease agreements fall short of appropriately binding the lessee to terms that incentivize reinvestment in the Airport such that the overall condition of the facility is maintained and improved while in use by the tenant. Such lease agreements weaken an Airport's financial outlook and can negatively impact the ability of these facilities to generate revenues that can be utilized for capital projects if desired.

As described in Chapter 1, *Inventory*, there are five conventional hangars at AVP, including the general aviation terminal building. Four of these hangars are used for aircraft storage and one is being used for maintenance. These hangars are leased by two tenants, the Fixed Base Operator (FBO) and a medevac operator. The remaining leases reviewed are those with air carriers and rental car agencies, and one non-aeronautical tenant. The review of existing leases found that agreements at AVP follow generally accepted industry practices. A snapshot of existing lease expiration dates, holdover terms, and renewal options is shown in **Table 7-3**.

[4] The review did not explore lease language for the purposes of making findings of legal defect or material compliance with FAA *Airport Compliance Manual, Order 5190.6B*.

Table 7-3: Summary of Current Airport Lease Agreements

Lessee	Summary of Premises	Current Term Expiration	Holdover (Y/N)	Renewal Options
General Aviation Operators				
Aviation Technologies	Aviation Center Office Space	10/21/17	N	(2) 1-Year
Aviation Technologies	FBO Facility, Aircraft/Customer Parking	8/31/28	N	(1) 5-Year
Geisinger Medical Center	Hangar Space	6/30/18	N	(1) 2-Year
Air Carrier				
Allegiant Air[1/]	Terminal Areas(s), Aircraft Parking	12/20/13	Y	N/A
American Airlines	Terminal Areas(s), Aircraft Parking	5/31/13	Y	N/A
Delta Air Lines	Terminal Areas(s), Aircraft Parking	5/31/13	Y	N/A
United Airlines	Terminal Areas(s), Aircraft Parking	5/31/13	Y	N/A
Ground Transportation				
Avis	Terminal Areas(s), Ready/Return Spaces	10/31/16	Y	N/A
Budget	Terminal Areas(s), Ready/Return Spaces	10/31/16	Y	N/A
Enterprise	Terminal Areas(s), Ready/Return Spaces	10/31/16	Y	N/A
Non-Aeronautical Business				
CSI International	Aviation Center Office Space	5/23/16	Y	(1) 2-Year

Source: Airport Management, 2016.
[1/]Non-Signatory Agreement

As shown in Table 7-3, Airport lease agreements with air carriers and rental car agencies are in holdover (month-to-month). Depending upon the strength of the passenger market, this is appropriate for air carriers and the car rental agencies that rely upon passenger activity.

One finding that can be noted in the FBO lease agreement is that terms do not include a link between renewal options and a requirement for investment at the Airport. In this regard, a commonly used term in airport leases is to require an investment in either leased premises or elsewhere on an airport. In this way, an FBO "earns" options for renewal beyond a longer initial term. Such terms ensure that the airport can maintain and improve valuable facilities over time while they are in use by private interests. While the current lease agreement does not negatively impact the financial performance of the Airport in the short term, improvements to existing facilities will maintain them in a state of good repair, compliant with local building codes, and improves the marketability of these facilities in the event the existing tenant vacates the premises in the future.

7.3.4. Historical Operating Revenues and Expenses

Historical revenue and expense statements for AVP was provided by Airport Management for the 2010-2015 period. This information gives some indication of trends that can be useful for forecasting future financial performance. **Table 7-4** shows the historical revenues and expenses as documented in the audited financial statements for each respective year.

Table 7-4: Historical Operating Revenues & Expenses

Category	2010	2011	2012	2013	2014	2015
Operating Revenues						
Terminal Area	$2,070,382	$2,207,201	$2,111,972	$2,092,986	$2,151,544	$2,200,853
Parking Lot	$1,457,960	$1,598,029	$1,644,719	$1,722,186	$1,769,967	$1,949,737
Landing Field	$808,377	$976,583	$942,460	$916,028	$885,379	$944,208
Other Land & Building Rental	$701,346	$708,608	$678,783	$504,319	$463,202	$508,775
Total	**$5,038,065**	**$5,490,421**	**$5,377,934**	**$5,235,519**	**$5,270,093**	**$5,603,573**
Operating Expenses						
Administrative	$1,474,396	$1,503,028	$1,545,910	$1,711,776	$1,703,652	$1,797,450
Terminal Area	$1,854,136	$1,782,213	$1,706,607	$1,737,961	$1,761,031	$1,826,792
Landing Field	$698,851	$661,949	$643,490	$684,764	$650,320	$677,540
Other Land & Building Rental	$398,226	$466,931	$380,166	$357,413	$369,870	$313,204
Garage	$340,407	$376,928	$328,625	$359,781	$370,598	$371,306
Emergency Equipment	$329,027	$311,868	$332,138	$344,855	$350,481	$347,302
Parking Lot	$342,790	$347,088	$329,087	$311,716	$295,362	$283,687
Total	**$5,437,833**	**$5,450,005**	**$5,266,023**	**$5,508,267**	**$5,501,314**	**$5,617,281**
Net Income/ (Deficit)	**($399,768)**	**$40,416**	**$111,911**	**($272,748)**	**($231,222)**	**($13,708)**

Source: Airport Management, 2017.

As shown in Table 7-4, operating revenues at AVP have increased nearly $568,000 between 2010 and 2015, which represents an average annual increase of 2.2 percent for the period. Large increases in 2011 and 2015 from previous years ($450,200 and $333,200, respectively) offset decreasing revenues between 2012-2014.

During the same period, operating expenses increased at an average annual rate of less than one percent, which indicates efforts to reduce expenses during periods of negative revenue variations. The primary drivers of Airport expenses during the period were costs associated with Administration, Garage, and Emergency Equipment, while all other expense category costs declined for the period. These cost control measures accounted for the Airport reaching nearly break-even in 2015, with anticipated net operating income in 2016 and budgeted for 2017.

Passenger Facility Charge Revenues

Passenger Facility Charges (PFC's) are a local fee-per-ticket collected by airlines on behalf of the Airport to fund capacity, safety, security, or environmental projects. Use of PFC collection monies is restricted to capital projects approved by the FAA; therefore, PFC collections has a significant impact on the Airport's ability to complete projects on the ACIP. **Table 7-5** presents a summary of PFC collections and expenditures for the 2012-2015 period.

Table 7-5: Summary of PFC Collections & Expenditures

Category	Total 2012-2015	Average Annual 2012-2015
Collections		
PFCs	$56,850,303	$14,212,576
Interest Income	$2,820,204	$705,051
Reimbursement of Prior Expenses	$74,632	$18,658
Total	**$59,745,139**	**$14,936,285**
Expenditures		
Project Expenses	($50,595,838)	($12,648,960)
Administrative Expenses	($74,932)	($18,733)
Total	**($50,670,770)**	**($12,667,693)**
Net PFC Collections	**$9,074,369**	**$2,268,592**

Source: Passenger Facility Charge Program, Independent Auditor's Reports, Wilkes-Barre International Airport, 2012-2015.

The PFC program at AVP shown in Table 7-5 represents over 50 approved projects, approximately 20 of which remain to be completed. As indicated, AVP expends nearly 90 percent of annual PFC revenues toward accomplishing approved projects in their capital program. Any remaining balance of PFC revenues at year end positions AVP to continue implementation of the Airport's capital program. Pursuant to *Title 14 Code of Federal Regulations, Part 158*, any excess PFC revenues must be used for approved projects or to retire outstanding PFC-financed bonds and follow a plan for expending these funds on a schedule approved by the FAA Airports Office Administrator.

7.3.5. Forecast of Baseline Airport Operating Financial Performance

The baseline forecast for future revenues and expenses at AVP represents a scenario that assumes all current operating conditions remain the same. While this may be somewhat unrealistic, it does present a forecast benchmark that can be used as a measure for the performance of recommended alternatives. The baseline forecasts do not consider improvements to the Airport's financial performance that may occur through the implementation of the preferred development plan or other economic shifts that could alter recent trends. The baseline forecast is for operating revenues and expenses during the 5-year, 2018-2022 period.

Assumptions used in developing the baseline forecast included the following:

- **Source of Base Year Financial Data**: The baseline forecast utilizes AVP audited financial statements for the 2010-2015 period, and budgets for 2016 and 2017. Audited financial statements are used to identify trends regarding growth or decline in revenues and cost centers. The baseline forecast utilizes these trends to project financial performance from the 2017 budget, which is considered the base year for the forecast represents the Airport's best estimate for that year.

- **Baseline Forecast Rates of Growth:** As a rule, baseline financial forecasts are crafted with a more conservative outlook on revenues than on expenses. This is because operating revenues from landing fees and passenger parking are variable - driven by regional and national markets for scheduled passenger service. Despite this variability on the revenue side of the ledger, AVP must sustain operations and a facility in good condition, with a level of staffing, equipment, and readiness that can respond to changes in the passenger market.

  Based on this forecast principle, the following growth rates were applied to the 2017 budget to forecast financial performance for the 2018-2022 period:

  - <u>Revenues</u>: Revenue categories that declined between 2010-2015 and are budgeted for decreases in 2016 or 2017, are forecasted to increase by the rate of inflation[5]. Revenue categories that experienced steady historical growth and are budgeted for an increase greater than 5 percent are capped at 5 percent annual growth for the period. These growth rates provide a balance for the forecast, and reflect the 2016 and 2017 budgets for revenues, which show increases of two percent and 3.5 percent, respectively, indicating growth that outpaces inflation.

  - <u>Expenses</u>: Growth rates used for expense categories in the baseline forecast range from 2.5-4.5 percent, for an overall average annual growth rate of four 4 percent. As described previously, expenses at AVP have been managed closely, with many cost centers showing steady annual decreases during the 2010-2015 period (up to 5 percent average annual decreases). Additionally, the budget for 2016 indicates continued cost-cutting measures with total operating expenses budget below 2015 levels. The 2017 budget shows planned increases to many of these categories over 2016 levels, which indicates and reflects the same scale of recovery budgeted on the revenue side.

Drawing on these assumptions, a baseline forecast of Airport financial performance is presented. The baseline projection of revenues and expenses was forecast through the year 2022 and is detailed in **Table 7-6**.

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[5] Rate of inflation was calculated based upon U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for the 2014-2016 period.

Table 7-6: Baseline Forecast of Airport Operating Financial Performance

Category	2017 Budget	2018	2019	2020	2021	2022
Operating Revenues						
Terminal Area	$2,157,144	$2,187,344	$2,217,966	$2,249,018	$2,280,504	$2,312,431
Parking Lot	$2,225,123	$2,336,379	$2,453,198	$2,575,857	$2,704,650	$2,839,883
Landing Field	$1,001,942	$1,052,039	$1,104,641	$1,159,873	$1,217,867	$1,278,760
Other Land & Building Rental	$520,857	$528,149	$535,543	$543,041	$550,643	$558,352
Total	**$5,905,065**	**$6,103,910**	**$6,311,348**	**$6,527,789**	**$6,753,665**	**$6,989,427**
Operating Expenses						
Administrative	$1,739,802	$1,791,996	$1,845,755	$1,901,128	$1,958,162	$2,016,907
Terminal Area	$1,841,280	$1,887,312	$1,934,494	$1,982,857	$2,032,428	$2,083,239
Landing Field	$772,595	$803,499	$835,639	$869,065	$903,827	$939,981
Other Land & Building Rental	$380,424	$397,543	$415,432	$434,127	$453,663	$474,077
Garage	$443,876	$463,850	$484,724	$506,536	$529,330	$553,150
Emergency Equipment	$369,932	$383,250	$397,047	$411,341	$426,149	$441,490
Parking Lot	$355,942	$371,960	$388,698	$406,189	$424,468	$443,569
Total	**$5,903,851**	**$6,099,410**	**$6,301,790**	**$6,511,243**	**$6,728,027**	**$6,952,413**
Net Income	**$1,214**	**$4,501**	**$9,558**	**$16,547**	**$25,637**	**$37,014**

Source: McFarland Johnson, 2017.

As shown in Table 7-6, total baseline operating revenues might be anticipated to grow from approximately $6.1 million in 2018 to more than $6.9 million by 2022. During the same period, baseline operating expenses are forecast to increase from about $6.1 million to $6.9 million in 2022. A summary of the baseline operating forecast is presented in **Table 7-7**.

Table 7-7: Baseline Net Operating Income/(Deficit) Summary

Year	Total Operating Revenues	Total Operating Expenses	Net Operating Income
2018	$6,103,910	$6,099,410	$4,501
2019	$6,311,348	$6,301,790	$9,558
2020	$6,527,789	$6,511,243	$16,547
2021	$6,753,665	$6,728,027	$25,637
2022	$6,989,427	$6,952,413	$37,014

Source: McFarland Johnson, 2017.

This forecast represents cumulative net operating income of about $93,300 for the period.

7.3.6. Forecast of Preferred Development Operating Financial Performance

The Airport has opportunities to enhance operating revenues by capturing forecasted levels of demand detailed in *Chapter 2. Forecasts*. This forecast of enhanced operating revenues includes baseline levels of passenger activity, and focuses on revenue generation from general aviation activity and non-aeronautical development. This section estimates the impact of attracting new operators at AVP as shown in **Table 7-8.**

Table 7-8: Forecasted Activities and Areas of Impact

Activity	Revenue Category Impact
General Aviation Activity	
Based Multi-Engine Aircraft	Ground Lease Rents Fuel Sales Landing Fees
Based Jet Aircraft	Ground Lease Rents Fuel Sales Landing Fees
Based Rotor Aircraft	Ground Lease Rents Fuel Sales Landing Fees
Non-Aeronautical Development Activity	
Non-Aeronautical Lease #1	Ground Lease Rents
Non-Aeronautical Lease #2	Ground Lease Rents

Source: McFarland Johnson, 2017.

The forecast of financial performance at AVP assumes facility improvement projects are completed that position the Airport to capture this demand, and benefit via rent payments, fuel purchases, and landing fees.

Forecast Inputs and Assumptions

The following input assumptions regarding development projects and associated activity were utilized to estimate increases to AVP operating revenues for the short-term period (2018-2022):

- **Ground Lease Rent Revenue:** Rental payments for two new ground leases for aeronautical users were included: a newly constructed hangar for the Pennsylvania State Police Aviation Patrol Unit (PSP), and a large conventional hangar for a large business jet such as the

Gulfstream V or similar. Both projects are assumed to be cost-neutral to AVP, as they will be constructed by private interests. At the time of this writing, the rental for the PSP lease has been negotiated and is assumed to represent market rate. A rental rate provided by Airport Management reflects the PSP rental rate, and is used for the large conventional hangar.

Additionally, two new ground leases for non-aeronautical development were included for parcels in Development Area 3 shown on Figure 5-20. A current property appraisal is not available for off-Airport non-aeronautical land; therefore, a conservative lease rate was estimated based upon the current assessed value of an adjacent property that is improved, presently in commercial use, and utilizes published capitalization rates for Luzerne and Lackawanna Counties[6]. The estimated lease rate is estimated to be $0.20 per square foot annually. Ultimately, lease rates for off-Airport non-aeronautical land will be negotiated and will reflect competition with the broader commercial and industrial real estate market.

- **Fuel Sales Revenue:** Fuel sales will increase once the referenced hangar projects are operational. To forecast a reasonable estimate of fuel sales, 2015 audited financials for the Airport regarding fuel sales revenue were compared to 2015 operations to find a ratio that can be applied to forecasted operations. The resulting revenues to AVP via increased fuel sales reflects only the fuel flowage fees paid by the FBO to AVP as the FBO retains a portion of the fuel concession margin under their agreement.

- **Landing Fees Revenue:** Like fuel sales, revenues to AVP from increased operations and landing fees reflects the FBO agreement, which stipulates that the FBO pay the Airport a majority portion of landing fees collected while retaining the balance.

The forecasted improvements described are programmed to take affect within the 5-year period as shown in **Table 7-9.**

Table 7-9: Forecasted Activities Implementation Timeline

Category	2018	2019	2020	2021	2022
PSP Lease	✓	✓	✓	✓	✓
Large Conventional Hangar	✓	✓	✓	✓	✓
Non-Aeronautical Lease #1		✓	✓	✓	✓
Non-Aeronautical Lease #2					✓

Source: McFarland Johnson, 2017.

Table 7-10 presents a forecast of enhanced operating financial performance for AVP based upon these assumptions.

[6] Source: Pennvest.pa.gov

Table 7-10: Forecast of Preferred Development Operating Financial Performance

Category	2017 Budget	2018	2019	2020	2021	2022
Operating Revenues						
Terminal Area	$2,157,144	$2,203,264	$2,233,886	$2,264,938	$2,296,424	$2,328,351
Parking Lot	$2,225,123	$2,336,379	$2,453,198	$2,575,857	$2,704,650	$2,839,883
Landing Field	$1,001,942	$1,060,063	$1,112,665	$1,167,897	$1,225,891	$1,286,784
Other Land & Building Rental	$520,857	$576,624	$592,730	$617,652	$625,254	$650,387
Total	**$5,905,065**	**$6,176,329**	**$6,392,479**	**$6,626,344**	**$6,852,219**	**$7,105,405**
Operating Expenses						
Administrative	$1,739,802	$1,791,996	$1,845,755	$1,901,128	$1,958,162	$2,016,907
Terminal Area	$1,841,280	$1,887,312	$1,934,494	$1,982,857	$2,032,428	$2,083,239
Landing Field	$772,595	$803,499	$835,639	$869,065	$903,827	$939,981
Other Land & Building Rental	$380,424	$397,543	$415,432	$434,127	$453,663	$474,077
Garage	$443,876	$463,850	$484,724	$506,536	$529,330	$553,150
Emergency Equipment	$369,932	$383,250	$397,047	$411,341	$426,149	$441,490
Parking Lot	$355,942	$371,960	$388,698	$406,189	$424,468	$443,569
Total	**$5,903,851**	**$6,099,410**	**$6,301,790**	**$6,511,243**	**$6,728,027**	**$6,952,413**
Net Income	**$1,214**	**$76,920**	**$90,689**	**$115,101**	**$124,192**	**$152,992**
Improvement over Baseline	**-**	**$72,419**	**$81,131**	**$98,555**	**$98,555**	**$115,979**

Source: McFarland Johnson, 2017.

As shown in Table 7-10, enhanced financial performance of the Airport can produce increases to net income, with performance over baseline growing each year as revenue-producing activities are implemented. The forecast represents for a cumulative impact of nearly $560,000 for the 5-

year period as compared to the baseline estimate shown in Table 7-6, which shows a cumulative 5-year income of $93,300.

A summary of the Airport's operating financial performance forecast under the preferred alternative is presented in **Table 7-11**.

Table 7-11: Forecast of Airport Operating Financial Performance – Preferred Alternative Net Operating Income/(Deficit) Summary

Year	Total Operating Revenues	Total Operating Expenses	Net Operating Income
2018	$6,176,329	$6,099,410	$76,919
2019	$6,392,479	$6,301,790	$90,689
2020	$6,626,344	$6,511,243	$115,101
2021	$6,852,219	$6,728,027	$124,192
2022	$7,105,405	$6,952,413	$152,992

Source: McFarland Johnson, 2017.

Based upon the analysis and assumptions described in this section, revenues from the new PSP Hangar, the construction of a large conventional hangar, and leases for non-aeronautical development at AVP could produce 5-year cumulative income of $560,000 through the period.

7.4. SUMMARY OF SHORT TERM CAPITAL PROGRAM FUNDING NEEDS

The purpose of this section is to determine the Airport's ability to fund the local match of FAA-approved projects in the short-term, 5-year period. As stated, the short-term need is roughly $1.09 million. To position the Airport for implementation of the ACIP beyond 2022, Airport revenue generation strategies should aim to produce operating income of a level that can afford reserving surplus income for the remainder of Phase II projects, which amount to a local share of $1.87 million. The average annual funding required for the combined Phase I and II projects through 2026 is approximately $329,000.

Table 7-12 presents the estimated funding need to implement Phase I and Phase II projects at AVP through 2026. As shown, the funding need includes reserve amounts each year for Phase II projects from 2023-2026, which could amount to a reserve fund of about $551,000.

As described in the previous section, baseline operating performance at AVP is forecast to realize net operating income for the period. However, forecasted baseline income levels cannot meet the short term ACIP local funding need. Therefore, it is necessary for the Airport to continue use of PFC program funds to implement the ACIP program. Table 7-12 includes a projection of cash flows from PFC collections through the period based upon baseline enplanement forecasts in *Chapter 2., Forecasts*.

Table 7-12: Estimated ACIP Short Term Local Funding Need & Capital Funding Feasibility

Source	2018	2019	2020	2021	2022	Total
Capital Program Need – Local Share						
ACIP – Short Term	$260,000	$101,088	$246,150	$287,500	$200,000	$1,094,738
ACIP – Reserve for Phase II & Phase III	$69,119	$228,031	$82,969	$41,619	$129,119	$550,857
Total Funding Need	**$329,119**	**$329,119**	**$329,119**	**$329,119**	**$329,119**	**$1,645,595**
Preferred Development Operating Performance						
Operating Income	$76,920	$90,689	$115,101	$124,192	$152,992	$559,894
Capital Deficit	($252,199)	($238,430)	($214,018)	($204,927)	($176,127)	($1,085,701)
Projected PFC Cash Flow Contribution						
PFC Cash Flow	$1,016,614	$1,036,949	$1,076,354	$1,097,878	$1,119,836	$5,347,631
Preferred Development Capital Funding Net Performance						
Net Financial Performance	**$735,526**	**$769,630**	**$833,447**	**$864,062**	**$914,820**	**$4,117,486**

Source: McFarland Johnson, 2017.

As shown in Table 7-12, anticipated passenger activity at AVP will result in PFC collections for the short-term period could surpass $4.1 million. The projection of cash flows from PFC collections assumes a rate of $4.50 per enplanement, which is discounted nominally to account for PFC program administrative expenses.

The analysis presented in this chapter demonstrates that AVP is on sound financial footing and the feasibility for implementing the ACIP program very positive. While the ACIP program is achievable, doing so will require that Airport leadership continue to exercise fiduciary responsibility in managing operating expenses, and pursue privately-funded aeronautical and non-aeronautical development that can have long-term impacts to AVP's bottom line.

Finally, the Airport should anticipate that steady growth in passenger activity will enable PFC collections to contribute substantially to the local match of approved projects. Therefore, it will be important to monitor the existing approved PFC program and collections, and evaluate PFC performance annually to determine needs to amend the existing PFC program or pursue new applications to position the Airport well to implement long-term ACIP projects. Additionally, the Airport should consider and use other appropriate and available funding sources described at the beginning of this Chapter to supplement federal and local funds for the ACIP program where needed.

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