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AIRPORT FINANCING PROGRAM

INTRODUCTION

The main objective of the airport financing program is to identify, ascertain, and highlight the financial obligations associated with airport capital development. Capital development at an airport requires that a number of factors be present in order for the Port of Port Townsend, as well as local community, to benefit from the resources that are invested into an airport. Airport capital development involves each of the following: need for and desire to develop the facility; available land and facilities; a supportive sponsor and local community; suitable financial resources; and potential economic gain from the investment. Should these factors exist, the airport has the potential to generate substantial economic vitality, as well as be a self-sustaining facility.

The first step of airport development includes determining the permitted land use of the facility, as well as the surrounding area. Land use and property acquisition are affected by physical site constraints, zoning and ordinance regulations and restrictions, and political and social factors.

Second, as already completed for JCIA, is the preparation of a market analysis to determine whether a demand exists for the planned facility, such as an industrial park in concert with an airport facility. The market analysis is an important tool for identifying potential market niches and facility users, as well as the strength of demand of the market within the region. Should the market analysis show a demand for the proposed airport developments, the next step would be to conduct an economic analysis would be recommended to determine the applicable rates, fees, and charges and a projected operating budget and expenses which would include maintenance, insurance, utilities, and taxes. Along with operating costs, the economic analysis would also determine loan amortization and construction costs.

The fourth and fifth steps of airport capital development include the construction phase, as well as the establishment of an operating plan for the life of the facility (airport industrial park) or development of a master plan to administer the airport facility for a specified planning period (20 years for an airport master plan).



AIRPORT FUNDING SOURCES AND OPTIONS

Funding for capital development at general aviation airports such as Jefferson County International Airport is generally available through federal, state, and local sources. The JCIA is recognized within the FAA *National Plan of Integrated Airport Systems (NPIAS), 2001-2005*, as well as the *Washington State Aviation System Plan (WSASP; 2001)*, which qualifies it for federal and state airport funding. In addition, job generating economic development activities that directly or indirectly support airport operations may be eligible for state or local economic development funding assistance.

FEDERAL AVIATION ADMINISTRATION (FAA) FUNDING

Federal funding including disbursement of Airport Improvement Program (AIP) general aviation entitlement, discretionary and state apportionment funding for public-owned, public-use airports within the State of Washington is administered by the FAA Northwest Mountain Region located in Seattle, Washington. The federal funding allocation for eligible AIP-funded capital improvement projects generally totals 90 percent of the total project development cost. The remainder of the project development costs is derived from local monies which total 10 percent of the total costs of the project.

The AIP, enacted by federal legislation in 1982 known as the Airport and Airway Improvement Act of 1982 (AAIA), provides for funding of planning and airport development grants-in-aid to public use airports identified within the NPIAS. The Airport and Airway Trust Fund, enacted by the Airport and Airway Revenue Act of 1970, was established to fund aviation user-supported initiatives. The Aviation Trust Fund is appropriated through congressional mandate and is comprised of funds derived from user taxes on airline tickets, aircraft fuel, freight waybills, and international departures, and is not generated from U.S. Treasury Department general tax allocations. The Trust Fund is utilized for aviation-related development projects nationwide.

With regard to future federal funding, The Aviation Investment and Reform Act for the 21st Century (AIR 21), enacted by legislation in 2001, is a comprehensive reauthorization of the FAA and the AIP. AIR-21 is a comprehensive 5-year authorization of the AIP/Aviation Trust Fund to allocate funds to complete airport and aviation-related projects as needed according to the Airport Capital Improvement Program (ACIP) in accordance with the Revised National Priority System (NPS). The ACIP and NPS were developed as a means of ranking, prioritizing, and evaluating regional and national aviation transportation needs. To date the AIP, through AIR 21, was authorized to increase to approximately \$3.5 billion for fiscal year 2003. Throughout the next decade the AIP and Aviation Trust Fund allocation levels will be susceptible to annual appropriation changes resulting from various legislative initiatives.



The formal FAA AIP grant process is initiated with the filing of a pre-application or, in the event of planning projects, the filing of an application. The pre-application is intended to serve as an airport sponsor's interest in a planning or engineering project. Next, the FAA will issue a Notice of Allocation identifying work items, fund amount, and schedule for grant award, during which time the sponsor will also seek to choose a consultant and complete the consultant selection process. From there, the sponsor will submit a formal application to the FAA following refinement of the contract and scope of services. Following submittal of the formal application, the FAA will issue a grant offer to the airport sponsor identifying the amount of the project grant. The formal application serves as an offer from the FAA identifying the work to be done and specifying the FAA's share of the grant, as well as the obligation of sponsor and all parties involved with the project. The final step in the AIP grant application process is the Notice to Proceed which follows the signing of the contract(s) signifying the official start of the project.

STATE OF WASHINGTON (WSDOT) FUNDING

Within the State of Washington, the Department of Transportation, (WSDOT) Aviation Division, is the guiding agency charged with the implementation of the State Airport Improvement Program for the nearly 130 public-use airports currently in operation within the state. The WSDOT, Aviation Division receives FAA state apportionment, discretionary funds, general aviation entitlement funds, as well as the additional state mandated aviation user revenue generated from fuel taxes, aircraft and pilot registration fees, personal property taxes, and sales and use taxes. A portion of these funds are then accumulated in a dedicated aviation state trust fund to be allocated to the various airports throughout the state. The Local Airport Aid Program assists with distributing these user-generated state aviation fees for the improvements at airport facilities which include planning, development and engineering projects.

LOCAL FUNDING (JEFFERSON COUNTY and PORT OF PORT TOWNSEND)

Local airport funding requirements for eligible AIP projects total 10 percent of the total project development costs. Non-eligible funding items such as auto parking improvements, hangars development, commercial or exclusive use development, fuel facilities, and revenue generating portions of airport terminal buildings generally require 100 percent of the development costs with no federal participation. Depending on the specific facility need and planned improvements taking place at JCIA, a significant portion of the funds necessary for accommodating future aviation demand will require local-only funding participation.

The following discussion differentiates between the different instruments available for funding airport development projects on a local level utilizing locally available funds:

- *General Obligation Bonds (G.O. Bonds):* G.O. Bonds are a debt financing method by which airport funds are generated through the issuance of bonds, backed by the full faith and credit and taxing-power of the issuing governmental agency and community. G.O. Bonds, which generally require voter approval, pledge the full faith and credit of the bond issuer as security to the investor. The issuer, in turn, is providing a pledge to support the bond as necessary in order to cover the required debt service. The full faith and credit backing of the G.O. Bond implies that all

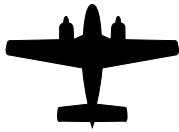


sources of generated revenue can be utilized to pay debt service on the bonds. A principal advantage of G.O. Bonds is that they can be issued at a lower interest rate than other types of bonds or commercial loans at a rate of two to five percent. G.O. Bonds are generally financed for a period of 10 to 15 years.

- *Revenue Bonds:* Revenue Bonds are generally issued by government entities with statute authority such as a state or local government and includes an airport authority or Port District. Revenue Bonds, based on the philosophy that facilities should be paid for and financed by those who use them, are payable from other specific sources of revenue rather than property taxes and are not backed by the full faith and credit of the issuer. Therefore, Revenue Bonds do not generally require voter approval and can be issued for a period of 25 to 30 years, resulting in lower monthly payments.

General Airport Revenue Bonds (GARB) are revenue bonds issued to finance a specific revenue generating project, and unless backed by third party guarantees, are generally secured solely by the revenue generated from the specific development project.

- *Industrial Development Bonds (IDB) and Exempt Facility Bonds:* IDBs are a specific type of revenue bond ideally suited for small general aviation airports. Securities are issued by a governing entity to finance facilities which are then leased to a private entity or user at a rental equal to the debt service of the bond and for a term equal to the maturity of the securities. These IDBs are also referred to as private activity or exempt facility bonds. Private activity bonds are those bonds issued by a public entity which will benefit primarily a private industry or activity. These bonds are tax exempt only if they are not designed to generate revenue and serve the public good, such as runways and taxiways, or those facilities servicing aircraft or the transferring of passengers.
- *Hybrid Source Bonds:* Hybrid Source Bonds are those that are joined with a GARB to fund a project. Also referred to as Double Barreled Bonds, the bonds are debt instruments that have two distinct revenues pledged to them. This is defined where the full faith and credit of the issuer is pledged to meet debt service requirements, but facility generated revenues are expected to cover all other debt and financial requirements. Generally, the taxing power of the bond issuer is not exercised.
- *Economic Development grants and Loans:* The Port is eligible to receive state and federal grant and loan funds to certain job-generating economic development activities. These funds may, under certain circumstances, be used to finance infrastructure improvements such as roads, or possibly buildings for manufacturing or light industrial uses.



PRIVATE (THIRD PARTY) FINANCING

General aviation airports serving smaller recreational and business aircraft, such as JCIA, rely heavily on private individual or private sector financing for less capital intensive non-eligible AIP airport improvements and airfield equipment projects, particularly those capital development projects which have the potential to generate a sustained stream of revenue for the airport.

AIRPORT OPERATING BUDGET

Table 8.1 states a summary of the airport operating revenue and expenses for the Jefferson County International Airport during the period of 1998 through the first ten months of 2002. During this five year period, JCIA generated an average of approximately \$152,700 in gross annual revenues, while at the same time incurring average operating expenses of approximately \$386,100, resulting in an average net operational income (loss) of approximately \$233,400.

<i>Table 8.1 Historic Airport Revenue and Expenditure Summary Jefferson County International Airport</i>					
Items	1998	1999	2000	2001	2002 (10-months))
Operating Revenue(s)	\$71,850	\$87,431	\$169,336.59	\$248,692.59	\$186,151.99
Direct Operating Expenses (Excluding Depreciation)	\$74,951	\$96,181	\$208,363.22	\$295,564.52	\$203,898.83
Net Operating Income (Loss) (Excluding Depreciation)	(\$3,101)	(\$8,750)	(\$39,026.63)	(\$46,871.93)	(\$17,746.84)
Depreciation	\$155,500	\$158,610	\$238,868.64	\$244,278.34	\$199,056.70
Total Direct Operational Expenses	\$251,655	\$288,801	\$447,231.86	\$539,842.86	\$402,955.53
Net Operating Income From Operations (Loss)	(\$179,805)	(\$201,370)	(\$277,895.27)	(\$291,150.27)	(\$216,803.54)
<p>Note: Total Direct Operational Expenses includes A & G allocations (overhead expenses). Note: Operating revenues for the year 2000 and 2001 rose sharply due to the Port taking over fueling operations at the airport.</p>					

Source: Airport Revenue and Expenditure Summary (1998-2002), Port of Port Townsend, Washington, December 2002.



AIRPORT REVENUES

Initially, fees, rates, and charges rely heavily on the airport sponsor and aeronautical users, as well as market characteristics within which the airport environment operates. To that end, rates, fees, charges, rentals and other service charges levied at an airport are imposed on the aeronautical users of the facilities from which they, the users, will benefit. Moreover, the fees imposed on airport users must be fair, reasonable, equitable, and must not unjustly discriminate against any class of aircraft or users without due consideration and/or just cause. In discussing fees and charges at airports, the basic premise behind establishing a reasonable fee and rate schedule is so that given the circumstances at a particular facility, the fee schedule will allow for and encourage financial self-sufficiency, to the extent possible and reasonable.

The following section discusses the principles applicable to establishing airport fees, rates and charges at the JCIA. The particular revenue sources of rates and charges are generally categorized as follows:

Operating rental/ lease revenue sources:

- Port-owned hangar rental rates;
- Privately-owned hangar land lease rates;
- On-airport commercial business lease rates;
- Rental property lease/ rent rates;
- Passenger terminal building structured lease rates; and
- On-airport commercial/ industrial area land lease rates.

Airport operational income revenue sources:

- Vehicle parking revenue;
- Aircraft landing fees;
- Aircraft parking fees; and
- Fuel sales/ flowage fee revenue.

PORT-OWNED HANGAR REVENUE/ RENTAL RATES

Currently, the Port of Port Townsend owns two (2) eight-unit nested T-hangars (Building No. 5 and 6) located west of the central terminal area complex. The total square footage for each of the hangars equals 7,050 square feet (14,100 S.F. total). The current single unit rental rate for these two hangars is \$130 per month equating to approximately \$24,500 in revenue annually. During 2001, a Port sanctioned market analysis was performed by the Shorett, Kidder, Mathews, and Segner Valuation Advisory Group in which they recommended increasing this rental rate to a current market value of \$140 per month. This rental rate is representative of the average current hangar demand market conditions at general aviation airports in the northwestern U.S., as well as various parts of the nation.



Accordingly, the following suggested Port-owned hangar rental rates reflect a four (4) percent annual adjustment during the short and mid-term phases of airport development and a three (3) percent annual adjustment during the long-term phase of capital development:

<i>Year</i>	<i>Rental Rate</i>
Existing	\$140/ Month/ Year
2007	\$168/ Month/ Year
2012	\$201/ Month/ Year
2017	\$231/ Month/ Year
2022	\$265/ Month/ Year

PRIVATELY-OWNED HANGAR REVENUE/ LAND LEASE RATES

Table 8.2 provides existing leased hangar facilities and lease rate information. At JCIA, land leased hangar revenues constitute a majority of revenues derived from the overall airport income. Current hangar lease rates, as of January 1, 2003, are based primarily on the Shorett, Kidder, Mathews, and Segner Valuation Advisory Group market analysis lease recommendation.



Table 8.2 Existing Airport Leased Hangar Facilities/ Lease Rate Assessment Jefferson County International Airport				
Hangar/ Building Number	Hangar Land Lease Characteristics			
	Hangar(s)	Aircraft Spaces/ Bays	Dimensions/Area (S.F.)	Current Yearly Lease Rate
1A	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1B	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1C	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1D	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1E	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1F	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
1G	T-Hangars (Portable)	1	40' x 30'/ 1,200 S.F.	\$.48/ S.F./ Yr.- \$576
4	T-Hangar	4	120' x 70'/ 8,400 S.F.	\$.48/ S.F./ Yr.- \$4,032
7	T-Hangar	10	310' x 35'/ 10,850 S.F.	\$.48/ S.F./ Yr.- \$5,208
8	T-Hangar	3	155' x 35'/ 5,425 S.F.	\$.48/ S.F./ Yr.- \$2,604
9	*T-Hangar/ Common Hangar	8-10	205' x 50'/ 10,250 S.F. 60' x 50'/ 3,000 S.F.	\$.48/ S.F./ Yr.- \$6,360
10	T-Hangar	10	205' x 50'/ 10,250 S.F.	\$.48/ S.F./ Yr.- \$4,920
11	**T-Hangar/ Common Hangar	7	205' x 50'/ 10,250 S.F. 60' x 50'/ 3,000 S.F.	\$.48/ S.F./ Yr.- \$6,360
12	T-Hangar	12	225' x 50'/ 11,250 S.F.	\$.48/ S.F./ Yr.- \$5,400
Total Hangar Storage Space		79 Aircraft	81,075 S.F.	\$38,916
<p>* T-hangars (205' x 50') located on south end of building; common hangar (60' x 50') located on north end of building. ** T-hangars (205' x 50') located on south end of building; common hangar (60' x 50') located on north end of building.</p>				

Source: JCIA Existing Airport Leased Hangar Facilities/ Lease Rate Assessment, December 2002.

Table 8.3 illustrates estimated future hangar development costs, associated land lease rates, and estimated airport revenues at JCIA during the 20-year planning period. This table illustrates a hypothetical scenario detailing reasonable hangar rental rates for newly constructed T-hangars should the Port find it necessary to consider investing in and financing T-hangar development. Additional nested T-hangars, as well as clear span/common hangars are required, as shown in aviation demand forecast and airport facility needs sections, to accommodate existing and forecast hangar demand for single and multi-engine aircraft during each phase of airport capital development. The projection of hangar development at JCIA during the 20-year planning period takes into account a reasonable assessment of demand levels, total airport revenue capabilities, and debt financing considerations (retirement of existing and new debt).



JEFFERSON COUNTY INTERNATIONAL AIRPORT (JCIA)

Airport Master Plan Update
Port of Port Townsend, Washington

Hangar construction, exclusive of or not eligible for federal grant assistance, is often the most capital-intensive development at any airport, with hangar construction and development for either nested T-hangars or clear span hangars, often being accomplished through financial interest by a private or group of individuals and financed by a conventional loan repaid, with interest, by hangar rental revenues. Development of clear span/common hangars at general aviation airports, such as JCIA, would generally serve a local or commercial business need from abroad. Privately owned hangar financing of clear span/common hangars would likely be exclusive of local or Port funds. The land lease rate for privately financed hangars is recommended to be lower than those of any Port-owned hangar area to encourage additional hangar development that is beyond the resources available to the Port.

Accordingly, the following suggested Port land lease rates for Port-owned, as well as privately-owned, hangars, reflect a three and a half (3.5) percent annual adjustment during the 20-year period of airport capital development.

<i>Year</i>	<i>Land Lease Rate (Privately Owned Nested T-Hangars)</i>
Existing	\$.48/ S.F./ Year
2007	\$.57/ S.F./ Year
2012	\$.67/ S.F./ Year
2017	\$.79/ S.F./ Year
2022	\$.93/ S.F./ Year

<i>Year</i>	<i>Land Lease Rate (Privately Owned Clear Span/ Common Hangars)</i>
Existing	\$.54/ S.F./ Year
2007	\$.63/ S.F./ Year
2012	\$.74/ S.F./ Year
2017	\$.87/ S.F./ Year
2022	\$1.02/ S.F./ Year



Table 8.3
Port Financed/ Owned T-Hangar Development (Estimated Rental Rate)
Jefferson County International Airport

Hangar	Area (S.F.)	Stored Aircraft	Cost (S.F)	Total Construction Cost Estimate	Monthly Rental Rate (See Notes)	Representative Total Annual Hangar Rents (See Notes)
T-Hangar (Phase I)	12,500	10	\$26.50	\$330,000	\$282.00	\$33,840
T-Hangar (Phase II)	12,500	10	\$26.50	\$330,000	\$343.00	\$41,160
T-Hangar (Phase II)	12,500	10	\$26.50	\$330,000	\$343.00	\$41,160
T-Hangar (Phase III)	12,500	10	\$26.50	\$330,000	\$355.00	\$42,600
T-Hangar (Phase III)	12,500	10	\$26.50	\$330,000	\$356.00	\$42,720
T-Hangar (Phase III)	12,500	10	\$26.50	\$330,000	\$356.00	\$42,720
Total - New	75,000	60	--	\$1,980,000	--	\$244,200

Note: Rates based on 2002 current dollar amount for fully-enclosed hangars with electrical outlets.

Note: Reasonable monthly hangar rental rate to cover principal, interest (6.25%) and achieve a five (5%) percent return of investment over a 15-year finance term without no (\$0) initial down payment.

Note: It is anticipated that the hangars will have a functional economic benefit well beyond the normal depreciation cycle (20 years), and that physical replacement is not a factor during the planning period.

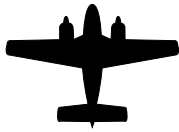
Note: Hangar revenues (income) are subject to ownership and investment arrangements, with ground leases commonly collected by the Port on privately owned common hangars in order to defray the cost of regular maintenance and upkeep assumed by the airport.

Source: JCIA Existing Airport Leased Hangar Facilities/ Lease Rate Assessment, December 2002.

RENTAL PROPERTY LEASE/RENTAL RATES

Currently, the Port owns property situated south of the Airport environ in which it rents a residence to a private individual. The current rental rate being assessed is \$575 per month yielding the Port approximately \$6,900 per year in revenue. Although a good business relationship might exist, it would be more ideal for private residences to be located outside the Airport property boundary due to the potential social issue that might exist with this sort of arrangement. Should the Port decide to continue this relationship, consideration might be given to rate adjustments to account for inflation and economic conditions.

Accordingly, the following suggested Port-owned rental property lease rates reflect a four (4) percent adjustment during the short, mid, and long-term phases of airport capital development:



<i>Year</i>	<i>Rental Property Lease Rate</i>
Existing	\$575/Month
2007	\$598/Month
2012	\$647/Month
2017	\$673/Month
2022	\$700/Month

PASSENGER TERMINAL BUILDING STRUCTURED LEASE RATES

Currently, JCIA is not equipped with a dedicated passenger terminal building. Due to forecast aviation demand activity at the airport with respect to aircraft operations, as well as general aviation and potential commercial service peak hour passenger activity, a 2,800 square foot dedicated terminal building has been recommended to be constructed during the initial phase (0-5 year) of airport capital development. The overall terminal building need at the conclusion of the 20-year planning time frame will approach 5,900 square feet of terminal building space.

Table 8.4 illustrates the estimated passenger terminal building construction costs, construction cost per square foot, monthly rental/ lease rate per square foot, , as well as estimated annual terminal building rental amount including total revenue amounts by year and phase for JCIA throughout the 20-year planning period.



JEFFERSON COUNTY INTERNATIONAL AIRPORT (JCIA)

Airport Master Plan Update
Port of Port Townsend, Washington

Table 8.4
Port Financed Passenger Terminal Building Development (Estimated Rental Rate)
Jefferson County International Airport

Terminal Building	Required Area (S.F.)	Construction Cost/ S.F.	Total Construction Cost Estimate	Monthly Rental Rate (See Notes)	Representative Annual Terminal Building Rent (See Notes)
General Aviation Terminal Building Development Financing					
G.A. Terminal Space (Phase I)	2,430 S.F.	\$159.00	\$386,680	\$2.51/S.F./ Month	\$29,276.00 (\$146,383.00)
G.A. Terminal Space (Phase II)	2,970 S.F. (540 S.F.)	\$245.00	\$132,150	\$3.07/S.F./ Month	\$54,707.00 (\$273,537.00)
G.A. Terminal Space (Phase III)	4,266 S.F. (1,296 S.F.)	\$166.00	\$214,730	\$3.60/ S.F./ Month	\$110,592.00 (\$1,105,920.00)
Total	4,266 S.F.	\$171.95	\$733,560	--	\$1,525,840
Commercial Service Terminal Building Development Financing					
Commercial Service Space (Phase I)	360 S.F.	\$165.00	\$59,320	\$2.60/S.F./ Month	\$4,492.00 (\$22,464.00)
Commercial Service Space (Phase II)	900 S.F. (540 S.F.)	\$74.00	\$40,150	\$3.16/S.F./ Month	\$17,064.00 (\$85,320.00)
Commercial Service Space (Phase III)	1,620 S.F. (720 S.F.)	\$114.00	\$82,270	\$3.70/ S.F./ Month	\$43,156.00 (\$431,568.00)
Total	1,620 S.F.	\$112.00	\$181,740	--	\$539,352
Grand Total	5,886 S.F.	\$155.50	\$915,310	--	\$2,065,192

Note: Rates based on 2002 current dollar amount.

Note: The amount of leaseable area for the general aviation and commercial service portion of the terminal building for Phase I, II, and III of planned airport development are 40%, 50%, and 60%, respectively.

Note: Information contained within parenthesis within the 'Required Area (S.F.)' column indicates total amount of square footage needed during the planning phase to accommodate demand activity at the airport.

Note: Information contained within parenthesis within the 'Representative Annual Terminal Building Rent' column indicates the total dollar amount collected from the specified monthly lease rate during the planning phase to assist with the financing/ amortization rate for construction of the terminal building.

Note: Total construction cost estimate of the terminal building does not include finance fees and interest.

Note: Each development phase in which terminal building expansion occurs, the monthly square footage lease rate includes an annual interest rate calculation (6.5%), applicable principal loan amount, payments per year (12), total number of payment (360), as well as periodic interest rate (0.5417%).

Source: JCIA Port Financed Passenger Terminal Building Development/ Lease Rate Assessment, December 2002.

ON-AIRPORT COMMERCIAL BUSINESS LEASE RATES

The existing airport administration building is a modernistic wood frame structure that houses various commercial enterprises at any given period of time. The businesses that occupy space within the building are generally aviation-related and derive a fair quantity of their business clientele from JCIA. The current market value of the business space rental rates within the administration building range from \$.48/S.F./month up to \$.54/S.F./month



JEFFERSON COUNTY INTERNATIONAL AIRPORT (JCIA)

Airport Master Plan Update
Port of Port Townsend, Washington

The measurements of the airport administration building include 1,770 square feet of total commercial use area. The administration building appears to be in good to fair physical condition. Currently, there are two businesses that utilize space in the administration building.

The following suggested commercial business lease rates for the airport administration reflect a three (3) percent adjustment during the short, mid-term and long-term phases of airport capital development.

<i>Year</i>	<i>Commercial Lease Rate (Administration Building)</i>
Existing	\$.54/ S.F./ Month
2007	\$.62/ S.F./ Month
2012	\$.71/ S.F./ Month
2017	\$.82/ S.F./ Month
2022	\$.94/ S.F./ Month

The Spruce Goose Café is a very popular attraction to JCIA and is located just north of the main aircraft parking apron. The overall physical condition of the restaurant building is fair to poor and occupies approximately 1,152 square feet of space. The current fair market value of the area occupied by the Spruce Goose Café ranges from \$.25/S.F./month up to \$.75/S.F./month. The current lease rate is \$187/ month or \$.16/S.F./month.

The following suggested commercial business lease rates for the Spruce Goose Café reflect a three (3.5) percent adjustment starting with the mid-term and long-term phases of airport capital development:

<i>Year</i>	<i>Commercial Lease Rate (Spruce Goose Café)</i>
Existing	\$.16/ S.F./ Month
2007	\$.50/ S.F./ Month
2012	\$.59/ S.F./ Month
2017	\$.69/ S.F./ Month
2022	\$.81/ S.F./ Month

Due to the economics involved with, and business characteristics of, restaurant operation, an alternative method for determining an appropriate commercial lease rate for the Spruce Goose Café might include determining a percentage of gross sales in lieu of a fixed lease rate to allow for seasonal fluctuations. For instance, instead of a lease rate per square footage, an agreed on percentage of gross sales ranging from five (5) percent to eight (8) percent might be a more efficient and amicable business arrangement. However, negotiations with the proprietor will have the most beneficial outcome as to the appropriate method of lease rate determination.



ON-AIRPORT COMMERCIAL/ INDUSTRIAL AREA LAND LEASE RATES

In order for the JCIA to become a self sustaining economic enterprise, additional revenue generating activities must occur on airport property south of the runways. These activities must be compatible with airport operations and FAA safety requirements, and shall be limited to rural scale, job-generating activities that only require rural levels of service.

During the completion of the JCIA market study analysis performed in 2001, Shorett, Kidder, Mathews, and Segner Valuation Advisory Group studied land values within the market area as compared with property values on the Quimper Peninsula, as well as other airports in the region. The market analysis indicated that the prime market value for property within the region as ranging from \$4.00 to \$5.00/S.F. Should industrial development take place at the airport, this land lease rate is fair and equitable from a financial planning standpoint. The aforementioned land lease rate is subject to current regional and national economic conditions, and may result in the lease rate less than or greater than the existing land value. Accordingly, given the current market land value, the following industrial area land lease rate(s) are suggested:

<i>Year</i>	<i>Land Lease Rate (Future Industrial Development)</i>
Existing	--
2007	\$4.00/ S.F./ Year
2012	\$4.50/ S.F./ Year
2017	\$4.75/ S.F./ Year
2022	\$5.00/ S.F./ Year

MOTOR VEHICLE PARKING REVENUE

The Port currently has in place a vehicle parking revenue fee that is paid based on the “honor system” and incurs revenue from motor vehicles that are parked at the airport for an extended period of time. Automobile parking rates are instituted due to the fact that motor vehicle parking facilities at JCIA are strained by a lack of parking area. Vehicles parked on the premises for extended periods of time that contribute to parking congestion should, therefore, pay for use of the parking facilities at the airport. The current weekly, monthly and yearly rates for extended parking are \$10, \$30, and \$180, respectively. In establishing future parking rates, the weekly parking rate is recommended to be invoked on the owner of the vehicle should a vehicle be parked, unattended, at the airport for a period of greater than 48 hours.

Accordingly, the following suggested Port terminal area extended motor vehicle parking rates reflect a four (4) percent annual adjustment during the short and mid-term phases of airport capital development, while a five (5) percent annual adjustment is recommended to allow for parking area upkeep and maintenance:



Year	Motor Vehicle Parking Rate(s)		
	Weekly	Monthly	Yearly
Existing	\$10.00	\$30.00	\$180.00
2007	\$12.00	\$36.00	\$216.00
2012	\$14.00	\$44.00	\$260.00
2017	\$18.00	\$55.00	\$325.00
2022	\$23.00	\$68.00	\$405.00

AIRCRAFT LANDING FEES

In 2001, the Port initiated an aircraft landing fee based on the total weight of an aircraft. Currently, the landing fee is \$.30 per 1,000 pounds of gross weight. During 2001 and the first ten months of 2002, the landing fee imposed on on-demand commercial service aircraft has yielded a total of approximately \$1,500 in airport revenues. As with the automobile parking rental rate, the landing fee is based on an “honor system” as well.

To ensure future viability and security of an airport landing fee, it is recommended that the Port pursue reasonable use agreement discussions with existing and potential commercial service operators at JCIA. The most viable course of action to pursue this end is to proceed with establishing landing fees by utilizing a *compensatory approach* to establishing landing fees. In this model of rates and charges determination, the user (commercial service operator) is charged based on their actual use for the facility from which they, too, derive a benefit rather than an unchecked honor system. A fee is levied against the user to cover the corresponding cost of the expenses to maintain and operate the facility. Furthermore, the cost/ rate of the imposed fee is based on the air carrier’s prorated share of occupancy or usage. This share of usage or occupancy can be based on total weight of the aircraft, annual operational activity, passenger enplanement/deplanement activity, or share of administration/ terminal building occupancy. A landing fee for commercial service operators might be classified under different nomenclature such as a *ramp fee*, etc.

Aside from commercial service operators, operators of large aircraft (gross weight in excess of 12,500 pounds) may also be levied landing fees utilizing the compensatory approach to rates and charges. The reasoning behind this recommendation is that larger, hence heavier, aircraft place a burden on existing facilities (pavement) designed primarily for small general aviation aircraft. Therefore, it is a reasonable assertion that larger aircraft are subject to landing fees based primarily on their weight, for which the airport must be compensated to maintain the facilities for the aircraft’s future use.

Determination of an actual fee amount would be best decided on by the Port and the commercial service operator through contractual agreements. Suggested landing fees might be \$5.00 to \$10.00 per departure or even \$1.00 per enplaned/deplaned passenger. With regard to large general aviation aircraft, a flat fee of \$15.00 to \$20.00 per departure would be a



reasonable expectation. Actual determination of a landing/ ramp fee would be best decided on by the Port, given their legal and governmental posture as the airport sponsor.

AIRCRAFT PARKING/TIE-DOWN FEES

With regard to aircraft tie-down spaces, a majority of the aircraft based at JCIA are stored within hangar structures. According to airport design standards, it is recommended that there be adequate tie-down space to accommodate five percent of the total based aircraft. In addition, approximately 45 to 50 percent of the total tie-down spaces will be occupied at any given period of time by transient aircraft visiting the airport. For these transient aircraft, if staying overnight, it is customary that should these aircraft purchase fuel, the overnight tie-down fee is waived. It is recommended that for future reference, a business plan be developed to collect aircraft tie-down fees from airport patrons through agreements with on-airport businesses to be responsible for collection of such fees for disbursement of such fees to the Port.

As compared to other airport markets in the region, the following suggested nightly and monthly aircraft tie-down rental rates reflect a three (3.5) percent annual adjustment throughout all phases (20-year) of airport capital development.

Year	Aircraft Tie-Down Rental Rate(s)					
	Small Aircraft (Paved)		Large Aircraft (Paved)		Small Aircraft (Grass)	
	Nightly	Monthly	Nightly	Monthly	Nightly	Monthly
Existing	\$5.00	\$53.50	\$10.00	\$63.00	\$5.00	\$37.00
2007	\$6.00	\$62.00	\$12.00	\$74.00	\$6.00	\$43.00
2012	\$7.00	\$73.00	\$14.00	\$87.00	\$7.00	\$51.00
2017	\$8.00	\$86.00	\$16.00	\$102.00	\$8.00	\$60.00
2022	\$9.00	\$100.00	\$19.00	\$120.00	\$9.00	\$71.00

FUEL SALES FLOWAGE FEES

In June 2000 the Port assumed responsibility for fueling operations at JCIA, during which time the Port has collected fuel flowage fees of approximately \$.40 to \$.50 per gallon. The current fuel flowage fee of \$.45 per gallon has net the Port approximately \$113,000 in revenues during the first ten months of 2002. With respect to current general aviation trends, average market fuel flowage fees range between \$.05 to \$.10 per gallon at airports where there is a dedicated Fixed Base Operator (FBO) responsible for fueling operations. In the future, should JCIA have one or more FBOs responsible for fueling operations, this current rate might be renegotiated to better compensate the FBO business(s). However, given the current operating conditions and characteristics at JCIA, should they remain the same throughout the planned period, the current fuel flowage fee is a fair and equitable rate administered by the Port.



Accordingly, should the current conditions at JCIA prevail throughout the 20-year period of capital development, the following fuel flowage fee reflects a three (3) percent annual adjustment to be levied on fuel flowage revenue at JCIA.

<i>Year</i>	<i>Fuel Flowage Fee (per gallon)</i>
Existing	\$.45/ gallon
2007	\$.51/ gallon
2012	\$.58/ gallon
2017	\$.66/ gallon
2022	\$.76/ gallon

AIRPORT EXPENSES

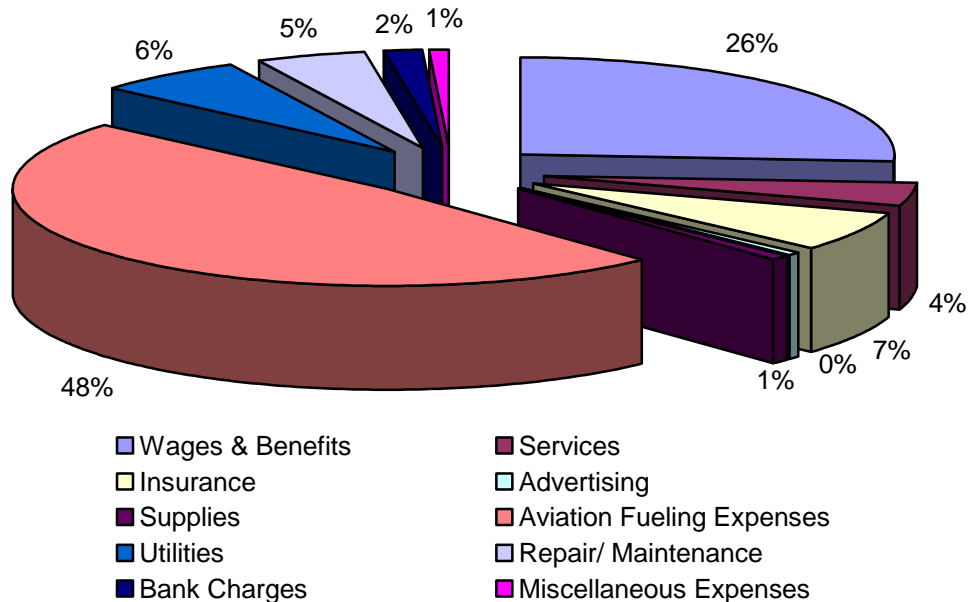
Airport operating expenditures reflect the variety of services, as well as the distinct variation of services among airports, and coincide with the airport operational activity. For instance, landing fees are a significant source of operational revenue at hub airports rather than non-hub and general aviation airports where other forms of revenue are relied on for continued airport operation. So, too, are the operational expenses in reflecting the variation among airports. For example, operational expenses such as wages, maintenance, and insurance are vastly different between hub, non-hub, and general aviation airports.

Airport expenses at the JCIA are classified into two categories: 1) operating expenses, and 2) non-operating expenses.

Operating Expenses (Direct): Expenses for the airfield, terminal and landside areas, as well as general expenses, include wages and benefits, services, excise taxes, insurance, advertising, supplies, utilities, consultants, and vehicle, building, equipment and ground maintenance.



Operating Expenses (Direct)



In reviewing the operating expenses for JCIA over the past five year period, it is evident that the various expense centers remain relatively constant throughout the period. The operating expense breakout above depicts the average ($\pm 2\%$ to 3%) allocation per each area of direct operational expenses that correspond with operational budgets for JCIA. For presentation purposes and simplicity, expense centers such as *travel and training, memberships and dues, excise tax, and miscellaneous expenses* are represented in the chart as 'Miscellaneous Expenses.'

Non-Operating Expenses: Non-operating expenses for the airfield, terminal and landside areas, as well as general expenses, include depreciation, debt service, capital improvement, government contribution and interest payments.

According to operational budget information for JCIA, it appears that non-operating airport expenses consist of one non-operating expense center - which is depreciation expense. Depreciation expenses at JCIA account for approximately 82 percent of the total budgeted expenses.

Other non-operating airport expenses are those associated with airport capital improvement. Airport capital improvement expenses are those costs that are considered above and beyond the normal necessary day-to-day operational requirements of the airport.

Although not currently applicable, airport capital development cost estimates were generated in Chapter 7, Airport Development Program. These capital development



cost estimates are provided as a guide for future capital improvement funding requirements which are an estimate of the future non-operating airport expenses at JCIA. **Table 8.5** depicts the Port's anticipated capital improvement non-operating expenses throughout the 20-year planning period.

Table 8.5 <i>Capital Improvement Non-Operating Expenses (Estimated)</i> <i>Jefferson County International Airport</i>					
Phase of Development	Airside Improvements	Landside Improvements			Other Expansion/ Development
		Pavement Improvements	Hangar/ Structure Development	Additional Terminal Area Development	
Phase One (0-5 Years)	\$90,866	\$22,300	\$1,057,700	\$347,300	\$49,400
Phase Two (6-10 Years)	\$79,500	\$22,000	\$929,600	\$69,600	n/a
Phase Three (11-20 Years)	\$34,291	\$135,500	\$1,317,300	\$128,300	n/a
Total Phased Development	\$204,657	\$179,800	\$3,304,600	\$545,200	\$49,400

Source: Airport Phased Development Plan Cost Estimates, December 2002.

AIRPORT FINANCING PROGRAM SUMMARY

The establishment and collection of fees, rates, and charges at JCIA require consideration of the different concepts of government ownership, formulation of an airport management philosophy, establishment of a policy on rates and charges, and an evaluation of the Airport's/ Port's relationship with the public, airport patrons and aviation community. The airport management philosophies and scenarios discussed below will largely affect the outcome of the airport's current and future financial situation.

- *Common Welfare Scenario:* This scenario reflects the management philosophy that the JCIA should provide free public facilities at the expense of the Port and be financially supported by a general tax revenue. This philosophy of airport operation maintains that the community is economically benefited through rapid transportation, emergency services availability, as well as economic activity generated by the Airport. It is the belief that these benefits are diffused throughout the community, thereby providing a common welfare to the local community. For this reason, the airport should be supported by tax levies and revenues.

Should the prevailing management philosophy view the airport as being essential to the public welfare, the decision making, budgeting, supporting airport operations, and collection of revenue should reflect that management philosophy.



Furthermore, if the airport services are not provided by private interests, the community welfare management philosophy adopted by the Port must accept the obligation to provide those necessary services.

- *Airport as Business Enterprise Scenario:* This scenario reflects the management philosophy that JCIA is a commercial industry where goods and services are exchanged, hence the airport is viewed as a profit making venture. This premise supports the notion that since the airport is a business enterprise it should be self-sustaining and unsupported by local tax funds.

Should the prevailing management philosophy view the airport as a business enterprise, the airport sponsor must adopt a fee and rate structure that would assist in recovering revenues to accomplish the goal of the airport being a purely self-sustaining entity, regardless of its public welfare role. This fee and rate structure must make a balanced assessment of the resulting fee and the ability of and cost to the Port in collecting the fees.

For both philosophies of airport management and operation, the revenue collection system in place must be considerate of its potential public relations affect on airport patrons. The Revenue collection structure is recommended to allow for ease of payment methods to reduce the cost of administering a fee and charges collection system. In the same instance, the Port must take special care to inform the airport patrons, as well as the general flying public, of its philosophy and revenue collection methods through an effective and efficient public relations campaign. Lastly, collection of airport revenues must be fair, equitable, universal, and reflective of the realities of supply and demand and must be efficient to result in a good public relations effort.

RECOMMENDED AIRPORT FEES, RATES AND CHARGES POLICIES AND PRACTICES

The following suggestions provide key recommendations in administering the Port's program and practices with respect to collection of fee and charges at the Jefferson County International Airport. Please note that the following discussion includes excerpts from fees, rates and charges policies and recommendations of the Airports Council International (ACI)- North America, as well as the American Association of Airport Executives (AAAE).

PRINCIPLES APPLICABLE TO AIRPORT RATES AND CHARGES

- Rates, fees, rentals, landing fees, and other service charges imposed on aeronautical users for aeronautical use of airport facilities must be fair and reasonable.
- Aeronautical fees may not unjustly discriminate against aeronautical users or user groups.



- The Port must maintain a fee and rental structure that in the circumstances of the airport makes the airport as financially self-sustaining as possible.

FAIR AND REASONABLE FEES

- Federal law does not require a single approach to airport rate-setting. Fees may be set according to a residual or compensatory rate-setting methodology, or any combination of the two, or according to another rate-setting methodology, as long as the methodology used is applied consistently to similarly situated aeronautical users and conforms with the requirements of applicable policy. The Port may set fees for aeronautical use of airport facilities by ordinance, statute or resolution, regulation, or agreement.
- Unless otherwise agreed to by the affected aeronautical users, revenues from fees imposed for use of aeronautical facilities and services specified by the Port may not exceed the economic costs to the airport proprietor (including a reasonable return on investment) of providing airfield services and airfield assets currently in aeronautical use unless otherwise agreed to by the affected aeronautical users. Economic cost, as used in this policy, means the competitive, market-based cost of providing such facilities and services. Valuation of the asset at historical cost adjusted by a recognized index for inflation is one of the means by which the Port may determine economic cost.
- A *rate base* is the total of all economic costs of providing airfield specified facilities and services to aeronautical users that may be recovered from aeronautical users through fees charged for providing airfield aeronautical services and facilities. The Port must employ a reasonable, consistent, and transparent (i.e., clear and fully justified) method of establishing such rate base and adjusting such rate base on a timely and predictable schedule.
- Costs properly included in the rate base are conclusively reasonable if they do not exceed an amount equal to all economic costs of operating and maintenance expenses directly and indirectly associated with the provision of airfield and specified aeronautical facilities and services to aeronautical users. Allowable costs include costs incurred in, or budgeted for, a fiscal year prior to the year in which the project is placed in service.
- The Port may include in each rate base the costs of planning, operation, maintenance, and administration of specified facilities and services.
- The Port may include in each rate base the economic costs of facilities, equipment, and other depreciable assets. A cost included within a rate base for a depreciable asset may be determined by using any one of the following methodologies, including (a) depreciation and imputed interest on the Historic Cost Value (HCV); (b) amortization of the HCV at an imputed rate of interest; (c) allocable debt service,



including principal, interest and coverage requirements; (d) a reasonable return on the HCV; (e) a reasonable return on the HCV adjusted by a recognized index for inflation; or (f) a reasonable return on the Fair Market Value (FMV) of such assets. A cost included within a rate base for a depreciable asset is conclusively reasonable if determined by using any of the methodologies identified in subparagraphs (a) through (f), and properly applied. A cost included within a rate base for a depreciable asset is presumptively reasonable if it does not exceed an amount which would result from the use of any of the methodologies identified in subparagraphs (a) through (f) and properly applied. A cost included within a rate base for each depreciable asset which exceeds an amount determined by the means specified in each of subparagraphs (a) through (f) above may also be reasonable if justified in light of particular local conditions at JCIA.

- The Port may include in each rate base the economic costs of land and other non-depreciable assets, such as navigation easements. A cost included within a rate base for each non-depreciable asset may be determined by using any one of the following methodologies including (a) allocable debt service, including principal, interest and coverage requirements; (b) a reasonable return on the HCV; (c) a reasonable return on the HCV adjusted by a recognized index for inflation; or (d) a reasonable return on the FMV. A cost included within a rate base for a non-depreciable asset is conclusively reasonable if determined by using any of the methodologies identified in subparagraphs (a) through (d) and properly applied. A cost included within a rate base for a non-depreciable asset is presumptively reasonable if it does not exceed an amount which would result from the use of any of the methodologies identified in subparagraphs (a) through (d) and properly applied. A cost included within a rate base for land and other non-depreciable assets which exceeds an amount determined by the means specified in each of subparagraphs (a) through (d) above may also be reasonable if justified in light of particular local conditions at the airport. At a reasonable rate, imputed interest on funds is used to finance airfield capital investments for aeronautical use or lands acquired for airfield use, except to the extent that the funds are generated by airfield fees. However, the Port may not include in the rate base imputed interest on funds obtained by debt-financing if the debt-service costs of those funds are also included in the rate base.
- The sponsor of an airport who has included a reasonable rate of return element in the rate base may not include an imputed interest charge as well.
- The Port may include reasonable environmental costs in each rate base to the extent that the Port incurs a corresponding actual expense. All revenues received based on the inclusion of these costs in the rate base are subject to Federal requirements on the use of airport revenue. Reasonable environmental costs include, but are not necessarily limited to, the following:
 - (a) the costs of investigating and remediating environmental contamination caused by airfield operations at the airport at least to the extent that such investigation or remediation is required by or consistent with local, state or federal



environmental law, and to the extent such requirements are applied to other similarly situated entities.

- (b) the cost of mitigating the environmental impact of an airport development project (if the development project is one for which costs may be included in the rate base), at least to the extent that these costs are incurred in order to secure necessary approvals for such projects, including but not limited to approvals under the National Environmental Policy Act and similar state statutes;
 - (c) the costs of aircraft noise abatement and mitigation measures, both on and off the airport, including but not limited to land acquisition and acoustical insulation expenses, to the extent that such measures are undertaken as part of a comprehensive and publicly-disclosed airport noise compatibility program; and
 - (d) the costs of ensuring against future liability for environmental contamination caused by current airfield activities. Under this provision, the costs of self-insurance may be included in each rate base only to the extent that they are incurred pursuant to a self-insurance program that conforms to applicable standards for self-insurance practices.
- The Port is encouraged to establish aeronautical fees with due regard for economy and efficiency.
 - The Port may include in each rate base amounts needed to fund debt service reserves and other reserves and to meet cash flow requirements as specified in financing agreements or covenants (for facilities in use), including, but not limited to, reasonable amounts to meet debt-service coverage requirements; to fund cash reserves to protect against the risks of cash-flow fluctuations associated with normal airfield operations; and to fund reasonable cash reserves to protect against other contingencies.
 - Unless otherwise agreed by aeronautical users, the Port must allocate capital and operating costs among cost centers in accordance with the following guidance, which is based on the principle of cost causation:
 - (a) Costs of airfield facilities and services directly used by aeronautical users may be fully included in the rate base, in a manner consistent with this policy. For example, the capital cost of a runway may be included in the rate base used to establish landing fees.
 - (b) Costs of airport facilities and services used for both aeronautical and non-aeronautical uses (shared costs) may be included in the rate base if the facility or service in question supports the aeronautical airfield activity reflected in that rate base. The portion of shared costs allocated to aeronautical users and among aeronautical uses should not exceed an amount that reflects the



respective aeronautical purposes and proportionate aeronautical uses of the facility in relation to each other and in relation to the non-aeronautical use of the facility, and must be allocated by a reasonable, *transparent* and not unjustly discriminatory methodology. For example, the costs of public-use roadways may be allocated among, and included in, the rate bases used to establish landing fees, terminal rents, and other aeronautical fees consistent with the provisions of this paragraph. Aeronautical users may not be allocated all costs of facilities or services that are used by both aeronautical and non-aeronautical users unless they agree to that allocation. Likewise, the airfield may not be allocated all the aeronautical share of commonly used facilities or services, unless the airfield is the only aeronautical use that the facility or service supports.

- In determining the total costs that may be recovered from fees for the use of airfield assets and public-use roadways in the rate base, the Port must value them according to their historic cost (HCA) to the original airport proprietor. Subsequent airport proprietors generally shall acquire the cost basis of such assets at the original airport proprietor's historic cost, adjusted for subsequent improvements.
 - (a) Where the land associated with airfield facilities and public use roadways was acquired with debt-financing, the Port may include such land in the rate base by charging all debt service expenditures incurred by the Port, including principal, interest and reasonable amounts to meet debt-service coverage requirements.
 - (b) If such land was acquired with internally generated funds or donated by the airport sponsor (the entity that executes grant agreements with the FAA for airport improvements), the Port may elect to either include a reasonable amortization charge in the rate base or to retain the full value of the land in the rate base and charge imputed interest in accordance with this policy. The Department of Transportation considers it unreasonable to alternate between methodologies to obtain undue compensation.
 - (c) In determining whether an amortization charge is reasonable under paragraph (b), the Department of Transportation will consider, among other factors, whether the airport proprietor selected an amortization period that gives appropriate recognition to the non-wasting nature of land.
 - (d) Upon retirement of the debt or completion of the amortization (when the Port has elected amortization), the land may no longer be included in the rate base.
 - (e) The Port may use a reasonable and not unjustly discriminatory methodology to allocate the total airfield costs of a rate base among individual components of the airfield to enhance the efficient use of facilities for which costs are included in the rate base of the airfield, even if that methodology results in fees charged



for a particular segment of aeronautical users that exceed that segment's pro rata share of costs based on HCA valuation.

- When assets in the rate-base have different costs, the Port may combine the costs of comparable assets to develop a single cost basis for those assets.
- Except as provided below or as otherwise agreed to by airfield users, the costs of facilities not yet built and operating may not be included in the rate base. However, the debt-service and other carrying costs incurred by the Port during construction or acquisition may be capitalized and included in a rate base amortized once the facility is put in service.
- The Port may use different methodologies to determine the cost of assets within different rate bases, and may periodically change its method for determining the cost of an asset to be included within a rate base.
- Reasonable methodologies may include, but are not limited to, historic cost valuation, direct negotiation with aeronautical users, or objective determinations of fair market value.
- Indirect costs may not be included in a rate base for the fees charged for aeronautical use of the airport unless they are based on a reasonable, *transparent* cost allocation formula calculated consistently for other units of government, rate bases, or cost centers within the control of the airport sponsor (Port).
- The costs of airport development or planning projects paid for with federal government grants (AIP funding grants) and similar contributions may not be included in a rate base for the fees charged for aeronautical use of the airport.

PROHIBITION OF UNJUST DISCRIMINATION

- The Port must apply a consistent methodology in establishing fees for comparable aeronautical users of the airport. When the airport proprietor uses a cost-based methodology, aeronautical fees imposed on any aeronautical user or group of aeronautical users may not exceed the costs allocated to that user or user group under a cost allocation methodology adopted by the airport proprietor that is consistent with this guidance, unless aeronautical users otherwise agree.
- Allowable economic costs properly included in the rate base must be allocated to aeronautical users by a transparent, reasonable, and not unjustly discriminatory rate-setting methodology. The methodology must be applied consistently and cost differences must be determined quantitatively, when practical.
- Common costs (costs not directly attributable to a specific user group or cost center) must be allocated according to a reasonable, transparent and not unjustly discriminatory cost allocation methodology that is applied consistently, and does not



require any aeronautical user or user group to pay costs properly allocable to other users or user groups.

REQUIREMENT TO BE FINANCIALLY SELF-SUSTAINING

- The Port must maintain a fee and rental structure that in the circumstances of the airport makes the airport as financially self-sustaining as possible.
- If market conditions or demand for air service do not permit the JCIA to be financially self-sustaining, the Port should establish long-term goals and targets to make the airport as financially self-sustaining as possible.
- The Port is encouraged, when entering into new or revised agreements or otherwise establishing rates, charges, and fees, to undertake reasonable efforts to make their particular airports as self sustaining as possible in the circumstances existing at such airports:
 - (a) Absent agreement with aeronautical users, the obligation to make the airport as self-sustaining as possible does not permit the Port to establish fees for the use of aeronautical facilities and services such that revenues from such fees exceed the economic costs to the Port of providing such aeronautical facilities and services unless justified by the particular circumstances existing at the airport that exceed the airport sponsor's airfield costs.
 - (b) For those facilities for which this policy permits the use of fair market value, the Department of Transportation does not construe the obligation on self-sustainability to compel the use of fair market value to establish fees.
- At some airports, market conditions may not permit an airport proprietor to establish fees that are sufficiently high to recover aeronautical costs and sufficiently low to attract and retain commercial aeronautical services. In such circumstances, an airport proprietor's decision to charge rates that are below those needed to achieve self-sustainability in order to assure that services are provided to the public is not inherently inconsistent with the obligation to make the airport as self-sustaining as possible in the circumstances.
- In establishing new fees, and generating revenues from all sources, airport owners and operators should not seek to create revenue surpluses that exceed the amounts to be used for airport system purposes and for other purposes for which airport revenues may be spent under applicable federal regulations, including reasonable reserves and other funds to facilitate financing and to cover contingencies. While fees charged to non-aeronautical users may exceed the costs of service to those users, the surplus funds accumulated from those fees must be used in accordance with applicable federal statutes.



- The Department of Transportation assumes it is the Department's intention that the limitation on the use of airport revenue, and effective market discipline for aeronautical services and facilities other than the airfield and the limitations on charges to aeronautical users contained in this policy, will be effective in holding aeronautical revenues, over time, to the airport proprietor's economic costs of providing aeronautical services and facilities, including reasonable capital costs. However, the progressive accumulation of substantial amounts of surplus aeronautical revenue may warrant an FAA inquiry into whether aeronautical fees are consistent with the airport proprietor's obligations to make the airport available on fair and reasonable terms.
- Monitor State legislation to evaluate potential designation of JCIA, in whole or in part, as an industrial land bank, MID, or related economic development land use category, consistent with Washington State law.
- Review and re-evaluate with Jefferson County the Unified Development code and Jefferson County Comp Plan provisions, to allow non-aviation light industrial/manufacturing that directly or indirectly support JCIA, so as to enhance Economic development in the county and allow the airport to be self sustaining

REQUIREMENTS GOVERNING REVENUE APPLICATION AND USE

- In accordance with relevant Federal statutory provisions governing the use of airport revenue, the Port may expend revenue generated by the airport only for statutorily allowable purposes. The purpose or definition of this stipulation is to make clear to the airport sponsor that any and all revenues generated at the airport must be spent on airport related development projects and capital improvements. To do otherwise would constitute revenue diversion which is a violation of Federal grant assurance agreements. Penalties for improperly spending airport revenues could, in the worst case scenario, encourage the FAA to revoke the airport sponsor's privilege to receive federal funding and thereby render the airport sponsor ineligible for future AIP Federal grant assistance.



JEFFERSON COUNTY INTERNATIONAL AIRPORT (JCIA)

**Airport Master Plan Update
Port of Port Townsend, Washington**

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