6.0 AIRPORT FINANCIAL PLAN

6.1 Introduction

This chapter examines the financial situation at Kanab Municipal Airport (KNB or the Airport), and presents recommendations to achieve FAA's goal of financial self-sustainability for the Airport.

Airport sponsors that accept FAA grants, including the City of Kanab, are legally encumbered by the Sponsor Assurances. Some of the assurances specifically address airport financial management:

> **22. Economic Nondiscrimination.**
>
> a. It (the airport sponsor) will make the airport available as an airport for public use on reasonable terms and without unjust discrimination to all types, kinds and classes of aeronautical activities, including commercial aeronautical activities offering services to the public at the airport.
>
> b. In any agreement, contract, lease, or other arrangement under which a right or privilege at the airport is granted to any person, firm, or corporation to conduct or to engage in any aeronautical activity for furnishing services to the public at the airport, the sponsor will insert and enforce provisions requiring the contractor to furnish said services on a reasonable, and not unjustly discriminatory, basis to 1) all users thereof, and charge reasonable, and not unjustly discriminatory, prices for each unit or 2) service, provided that the contractor may be allowed to make reasonable and nondiscriminatory discounts, rebates, or other similar types of price reductions to volume purchasers.
>
> c. Each fixed-based operator at the airport shall be subject to the same rates, fees, rentals, and other charges as are uniformly applicable to all other fixed-based operators making the same or similar uses of such airport and utilizing the same or similar facilities.
>
> **24. Fee and Rental Structure.** It (i.e. the airport sponsor) will maintain a fee and rental structure for the facilities and services at the airport which will make the airport as self-sustaining as possible under the circumstances existing at the particular airport, taking into account such factors as the volume of traffic and economy of collection. No part of the Federal share of an airport development, airport planning … project for which a grant is made under Title 49, United States Code…shall be included in the rate basis in establishing fees, rates, and charges for users of that airport.
>
> **25. Airport Revenues.** All revenues generated by the airport and any local taxes on aviation fuel established after December 30, 1987, will be expended by it (the airport sponsor) for the capital or operating costs of the airport.

FAA acknowledges that each airport is unique in terms of its financial situation, as well as in relation to each airport sponsor's financial goals and objectives. However, FAA requires each airport to work towards the goal of achieving and maintaining financial self-sufficiency to the extent feasible given each airport's unique circumstances.

6.2 Airport Capital Improvement Plan (CIP)

The FAA is required by the U.S. Congress to prepare a capital improvement plan (CIP) for every airport in the National Plan of Integrated Airport Systems (NPIAS), including KNB). In turn, the FAA requires each airport sponsor to submit their individual CIP to FAA on an annual basis. FAA uses the CIPs to develop the NPIAS, which identifies airport funding needs for at least five years. Many states and airports prepare CIPs that identify projects, cost estimates, and funding sources for a period of 10 years or more.

Each CIP is focused on airport improvements and development, and not airport operation and maintenance (O&M) expenses FAA requires each airport CIP to cover a five-year period, however, CIPs are updated every year, and sometimes more frequently depending on circumstances. Each CIP is required to identify:

- Individual improvement projects
- The cost estimate for the project
- Potential funding sources—typically FAA, Sponsor, State, Private, as appropriate
- The time period for implementation

KNB's current CIP Airport Development Plan Project List is shown in **Table 6-1**. The FAA has established criteria for what is eligible for FAA funding. Eligible projects must be shown on an approved Airport Layout Plan (ALP), and must be available for public use (i.e. not an exclusive-use facility or subject to a lease with a private entity).

The FAA uses "three basic tests" to determine funding eligibility for projects:

- The project advances an AIP policy (i.e. dealing with airport safety, security, capacity, meeting FAA standards, preserving infrastructure, etc.).
- There is an actual need (i.e. facility requirements are demand-driven).
- The project scope is appropriate.

When a project is determined to be eligible for FAA funding it is then subject to FAA's priority ranking system. Projects dealing with safety, security, standards, environment, and capacity are typically ranked highest. Projects with lower priority ranking (such as hangars, vehicle parking, airport access roads, etc.) receive FAA funding after higher ranked projects have been implemented. In addition, FAA will issue a grant for an eligible project only after all of the necessary environmental reviews and approvals have been obtained, and the sponsor has the local share of the project cost available.

TABLE 6-1 – AIRPORT DEVELOPMENT PLAN PROJECT LIST

Utah Division of Aeronautics
Airport Development Plan Project List

Kanab (KNB)

Project Description & Cost Estimate

Scheduled/ Requested Federal Fiscal Year	Project Description	Project Identification in ALP/MP	Comments	Sponsor Priority Number	Estimated Total Cost of Project	Cost Allocation $				
						Federal Participation	NP Entitlement	State Apportionment/Discretionary	State Participation	Sponsor Participation
Federally Funded Projects						90.63%			4.685%	4.685%
2016	Bank GA Entitlement				$ -	$ -			$ -	$ -
2017	Pavement Preservation (Apron, Taxiways & Turnarounds)				$ 165,508	$ 150,000	$ 150,000		$ 7,754	$ 7,754
2018	Resurface Runway 1/19 (replace PFC, mill & overlay)				$ 1,257,862	$ 1,140,000	$ 450,000	$ 690,000	$ 58,931	$ 58,931
2019	Re-pay borrowed funds				$ -	$ -			$ -	$ -
2020	Bank GA Entitlement				$ -	$ -			$ -	$ -
2021	Land Acquisition - AWOS				$ 331,016	$ 300,000	$ 300,000		$ 15,508	$ 15,508
2022	Reconstruct East Apron				$ 717,202	$ 650,000	$ 300,000	$ 350,000	$ 33,601	$ 33,601
2023	Re-pay borrowed funds				$ -	$ -			$ -	$ -
2024	Environmental Assessment				$ 331,016	$ 300,000	$ 150,000	$ 150,000	$ 15,508	$ 15,508
2025	Land Acquisition Phase I				$ 2,112,987	$ 1,915,000	$ 150,000	$ 1,765,000	$ 98,993	$ 98,993
2026	Strengthen, Widen Rwy 1/19, Phase I				$ 1,268,896	$ 1,150,000	$ 150,000	$ 1,000,000	$ 59,448	$ 59,448
2027	Paving Phase I				$ 7,889,220	$ 7,150,000	$ 150,000	$ 7,000,000	$ 369,610	$ 369,610
2028	Paving Phase II				$ 6,785,833	$ 6,150,000	$ 150,000	$ 6,000,000	$ 317,916	$ 317,916
Participation Totals					**$ 20,859,539**	**$ 18,905,000**	**$ 1,950,000**	**$ 16,955,000**	**$ 977,269**	**$ 977,269**
State Funded Projects									90.00%	10.00%
2016	Electrical Vault & New PAPI				$ 166,667				$ 150,000	$ 16,667
2019	Pavement Preservation				$ 180,000				$ 162,000	$ 18,000
									$ -	$ -
									$ -	$ -
Participation Totals					**$ 346,667**				**$ 312,000**	**$ 34,667**

Note: Attach additional sheets as necessary to fully describe projects or to add information needed for a full understanding of project scope, location and costs.

For Planning Purposes Only

Source: Utah Division of Aeronautics

Airport sponsors can also implement projects without FAA funding. The new terminal building being constructed at KNB is an example of a project that is not using FAA grants. Many airports rely on private investment for projects such as hangars, concessions in terminal buildings, non-aeronautical development, etc. It is proposed in this Master Plan that future hangars and any non-aeronautical commercial development be privately funded, and not built by the City.

While there are pros and cons associated with private investment on airports (**Table 6-2**), airport sponsors can mitigate some of the risks with specific lease provisions. For example, sponsors can include reversion clauses in leases whereby all improvements made on leasehold property revert to the ownership of the airport sponsor at the end of the lease term. In addition, sponsors can require construction and performance bonds before private parties begin improvement projects.

TABLE 6-2 – PRIVATE INVESTMENT IN AIRPORTS

Pros	Cons
– Reduces capital outlay by the airport sponsor.	– Facilities not eligible for FAA funding
– Reduces the risk associated with capital development projects.	– Sponsor typically receives less revenue from land lease compared to building & land lease it sponsor constructs project.
– Potentially improve the sponsors bond ratings	– Investor may insist on long-term lease to amortize investment
	– Without strong lease provisions, airport sponsors may have limited control over use of private facilities, sub-leasing, etc.

Under the FAA's current Airport Improvement Program (AIP), general aviation airports receive $150,000 per year in entitlement grants, which can be used on FAA-eligible capital improvement projects each year, or else banked for a maximum of three years, at which time the airport has $450,000 available for eligible projects. KNB is banking the entitlement grants and will apply $450,000 to the Runway 1-19 mill and overlay project in 2018. Entitlement grants for GA airports are dependent on Congressional appropriations each fiscal year. If annual appropriations were to fall below pre-determined levels, then GA airports would not receive their annual entitlements. To date Congress has appropriated sufficient money each year for GA airports to receive entitlement grants.

In KNB's current CIP (**Table 6-1**), the projects shown in years 2021-2028 include relocating the AWOS, widening Runway 1-19, an environmental assessment, and land acquisition Phase 1, all of which deal with upgrading KNB to FAA airport reference code (ARC) C-II standards. Collectively those projects have a total estimated cost of $19.436 million; the City's share of those project costs is $910,584, which represents 4.685% of the total.

These estimates do not include constructing a full parallel taxiway to Runway 1-19, which was recommended in the previous airport master plan and the State Airport System Plan. A new parallel taxiway could potentially cost between $4 million and $5 million. Based on the forecasts of demand as well as the existing and future critical design aircraft, this Master Plan recommends that KNB remain ARC B-II within the planning period, but construct the parallel taxiway to C-II design standards. **Table 6-3** presents a comparison of the costs between upgrading KNB to FAA ARC C-II design standards (current CIP) vs. leaving it in its current layout (proposed CIP).

TABLE 6-3 – COMPARISON OF EXISTING KNB CIP TO PROPOSED MASTER PLAN CIP

	Existing CIP (2016-2028)	Proposed Master Plan CIP (2017-2025)
Cost Estimate/Funding Source*		
Total Cost of Projects on CIP	$20,859,539	$4,890,573
FAA Total Share	$18,905,000	$2,146,576
Subtotal FAA - Non-Primary Entitlement	$1,950,000	$900,000
Subtotal FAA - State Apportionment	$16,955,000	$1,266,576
City	$977,269	$111,998
State	$977,269	$111,998
Private	NA	$2,500,000
Cost Estimate		
Upgrade to ARC C-II	$18,786,169	$0
State Funded Projects		
State	$312,000	$312,000
City	$34,667	$34,667

Sources: KNB's existing CIP, Utah Division of Aeronautics Airport Development Plan Project List, Proposed Master Plan CIP
*In order to demonstrate the cost differential between upgrading KNB to FAA ARC C-II design standards vs. leaving it in its current layout, the proposed parallel taxiway is not reflected in the amounts above.

The proposed hangars at KNB, discussed in **Chapter 4** and shown in **Figure 6-1**, will cost approximately $2.5 million. The hangars will be constructed on an as-needed basis by private investors. The new facilities include four corporate/conventional hangars, each one approximately 80 feet by 80 feet (6,400 square feet), and an extension/addition of the existing T-hangar building by approximately eight units.

The southern-most future hangar shown on the edge of the parking apron would have to be sited so as not to interfere with the AWOS, based on the height of the AWOS antenna and top of the hangar. It is possible that the hangar could be situated further to the east, away from the parking apron, if needed to provide sufficient clearance from the AWOS, however that would require constructing an access taxiway between the apron and the hangar. It is recommended that the future hangars shown to the northeast be constructed first, and the southern-most hangar only if demand warrants after the other hangars have been constructed and are occupied.

It is anticipated that all of the hangar costs will be borne by private parties. Each hangar developer will determine their particular needs, timing, and available financing, and therefore it is difficult to determine exactly when private parties will approach the City to construct the hangars, how many hangars or what size they will want to build, the utility hookups needed, etc.

Some airport sponsors share in the cost of the utility hookups, but that is a policy decision to be made by the City of Kanab. The actual hangar construction costs will vary depending on a variety of factors:

- The extent of utilities (water, sewer/septic, electric, cable, etc.) to each hangar.
- The size, configuration, and layout of each hangar and associated apron.
- Whether hangars have sprinkler or other fire suppression systems such as fire walls.

- The cost of materials at the time the hangars are constructed. The cost of some construction materials such as copper, steel mill products, fabricated structural metal, and prefabricated metal buildings, for example, have been extremely volatile since 2006.
- The type and extent of interior and exterior fittings installed, included security systems.
- Whether multiple hangars are constructed at the same time by the same contractor, or built individually by multiple contractors over different periods. The former process is typically less expensive than the latter.

Table 6-4 presents a revised Capital Improvement Plan without the projects needed to upgrade to C-II design standards, but includes private hangar development.

6.2.1 FAA Grants

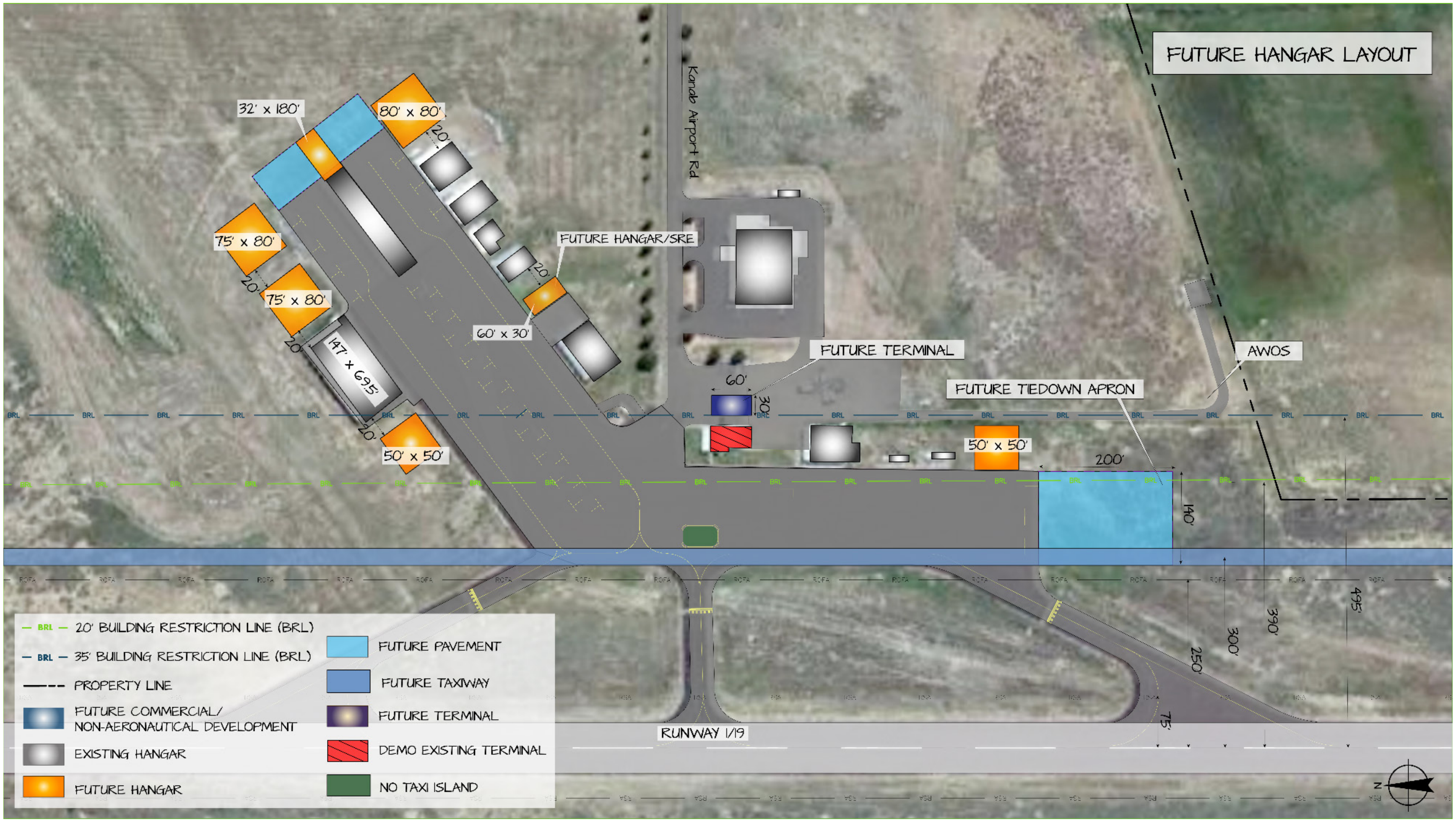
In addition to the entitlement grants, FAA also issues discretionary grants. While the term discretionary implies flexibility in terms of which projects can be awarding grants, under the recently expired AIP program, two thirds of all discretionary money is earmarked for specific types of projects such as the military airport program, noise mitigation, and environmental projects. Discretionary grants are awarded on the basis of the priority ranking system, discussed previously, which ranks all eligible projects at GA airports within the FAA's Northwest Mountain Region, and compares the needs against the funding available to issue each fiscal year as grants. In addition, the FAA requires a benefit-cost analysis (BCA) to demonstrate the merit of capacity projects for which airport sponsors are seeking AIP discretionary funds.

Because available AIP funding does not meet all of the financial needs identified throughout a given FAA region, some lower ranked projects (such as hangars, access roads, etc.) will receive grants after higher priority projects. Due to the uncertainties of Congressional appropriations each fiscal year, the need to fund high priority projects, and fluctuations in the availability of local and state matching funds, it is difficult to predict with certainty when FAA funding for lower ranked projects will be available. FAA's latest AIP program expired at the end of September 30, 2015, and the program has since been funded by short-term Continuing Resolutions (CR) passed by Congress. Congress is studying legislation to create a new AIP program, but it is currently not known:

- when the new AIP program will be passed and signed into law;
- how long it will remain in effect;
- how much money will be appropriated for airport development projects;
- if the entitlement and discretionary formulas will remain the same, or be changed;
- if FAA's priority ranking system or project eligibility criteria will remain the same, or be changed;
- if FAA's share of project costs (currently 90% for most eligible projects) will remain the same or change.

As a result, once the new AIP program has been passed, the FAA and each airport will need to re-examine their CIP and determine how changes in the new program will impact their CIP.

FIGURE 6-1 – KNB FUTURE LAYOUT PLAN



Source: Jviation

TABLE 6-4 – KANAB MUNICIPAL AIRPORT – REVISED CIP

FY	Project Description	Estimated Total Project Cost	Federal Participation	NP Entitlement	State Apportionment/ Discretionary	State Participation	Sponsor Participation	Private Investment
Federally Funded Projects			90.63%			4.69%	4.69%	
2017	Pavement Preservation	$165,508	$150,000	$150,000		$7,754	$7,754	
2018	Resurface Runway 1-19	$1,257,862	$1,140,000	$450,000	$690,000	$58,931	$58,931	
2019	Bank GA Entitlement	$0	$0					
2020	Bank GA Entitlement	$0	$0					
2021	New Hangar Development	$625,000	$0					$625,000
	Reconstruct East Apron	$283,000	$254,700	$254,700	$0	$14,150	$14,150	
2022	Bank GA Entitlement	$0	$0					
2023	New Hangar Development	$625,000	$0					$625,000
	SRE Building	$100,000	$90,000	$90,000	$0	$5,000	$5,000	
2024	New Hangar Development	$625,000	$0					$625,000
	SRE Equipment	$250,000	$225,000	$225,000	$0	$12,500	$12,500	
2025	New Hangar Development	$625,000	$0					$625,000
	Construct Additional Apron	$250,000	$225,000	$225,000	$0	$12,500	$12,500	
2026	Bank GA Entitlement	$0	$0					
2030	Parallel Taxiway	$4,500,000	$4,078,350	$450,000	$3,628,350	$210,825	$210,825	
	TOTAL	$9,306,370	$6,163,050	$1,844,700	$4,318,350	$321,660	$321,660	$2,500,000
State Funded Projects						90.00%	10.00%	
2016	Electrical Vault & New PAPI	$166,667				$150,000	$16,667	
2019	Pavement Preservation	$180,000				$162,000	$18,000	
	TOTAL	$346,667				$312,000	$34,667	

Source: Proposed CIP, Jviation

6.3 Airport Development Plan

The new 2,186-square-foot terminal building is scheduled to be constructed by Fall 2016. That project cost is approximately $349,000, and was funded by an Interlocal Finance Agreement between the City of Kanab and the Recreation and Transportation Special Service District. The District paid for the terminal building construction, but it is owned and operated by the City of Kanab.

Runway 1-19 is programmed in the CIP for a mill and overlay in 2018. The City is also planning to install an above ground JetA 10,000-gallon storage tank with a self-serve pump. The proposed hangars will be constructed by private parties on an as-needed basis over the next 5 to 15 years. This area also includes the development of a snow removal equipment building measuring approximately 1,800 square feet. As noted previously, it is recommended that the City maintain FAA ARC B-II status during the planning period, but construct a full-length parallel taxiway to C-II standards for long-term planning. The timing of the taxiway construction is recommended for 2026 to garner as much federal entitlement funding as possible. Property acquisitions required for runway improvements and RPZ control are recommended if/when the runway is extended.

There are approximately 12.5 acres in the terminal area identified as surplus for aeronautical purposes that could be developed for revenue-producing, non-aeronautical commercial or light industrial land uses (**Figure 6-2**). **Appendix 6-A** presents draft language that could be incorporated by the City in leases defining acceptable development that is compatible with airport and aircraft operations. FAA requires the airport sponsor (i.e. City of Kanab) ensure that all non-aeronautical development be fully compliant with FAA requirements.

If the City charged a land lease rate of 20 cents per square foot/per year, for example, that could generate approximately $108,000 per year in revenue, which must be dedicated to airport operation, maintenance, and improvements. As noted in **Chapter 4**, the City is required by the FAA grant assurances to adopt appropriate restrictions on the future land uses to ensure that the development is fully compatible with both airport and aircraft operations.

6.4 Airport Leases, Rates, and Charges

The City has signed leases with a number of Airport tenants. Based on the review of the leases in relation to pertinent FAA guidance, the general conclusions are:

1. There are some leases with indefinite terms, and some leases with 50-year terms or greater, contrary to FAA guidance. The FAA has determined that sponsors cannot enter into agreements with terms that exceed 50 years. As stated by FAA: “Most tenant ground leases of 30 to 35 years are sufficient to retire a tenant’s initial financing and provide a reasonable return for the tenant’s development of major facilities. Leases that exceed 50 years may be considered a disposal of the property in that the term of the lease will likely exceed the useful

life of the structures erected on the property. FAA offices should not consent to proposed lease terms that exceed 50 years." [1]

Recommendation:

The City of Kanab should approach the lessees with long-term leases and explain that the leases are in violation of the FAA grant assurances, and request the lessees to open negotiations to bring the lease terms into compliance with FAA requirements.

2. Most of the lease rates prescribed in the leases at KNB appear to be below market value. For example, a number of leases specify $125 per year for up to 1.35 acres of land. Several statewide surveys of general aviation airport rates and charges indicate that land lease rates range between 15 cents to 25 cents per square foot, per year. If those rates were applied to KNB, 1.35 acres would generate between $8,800 and $14,700 per year. At 10 cents per square foot, per year, 1.35 acres would generate $5,900 per year. If KNB is not financially self-sufficient, lease rates may need to be increased to achieve financial self-sufficiency. As noted previously, FAA Sponsor Grant Assurance #24, Fee and Rental Structure, and FAA Airport Compliance Manual, FAA Order 5190.6B, Chapter 17, require airports to be as financially self-sustaining as possible.

Recommendation:

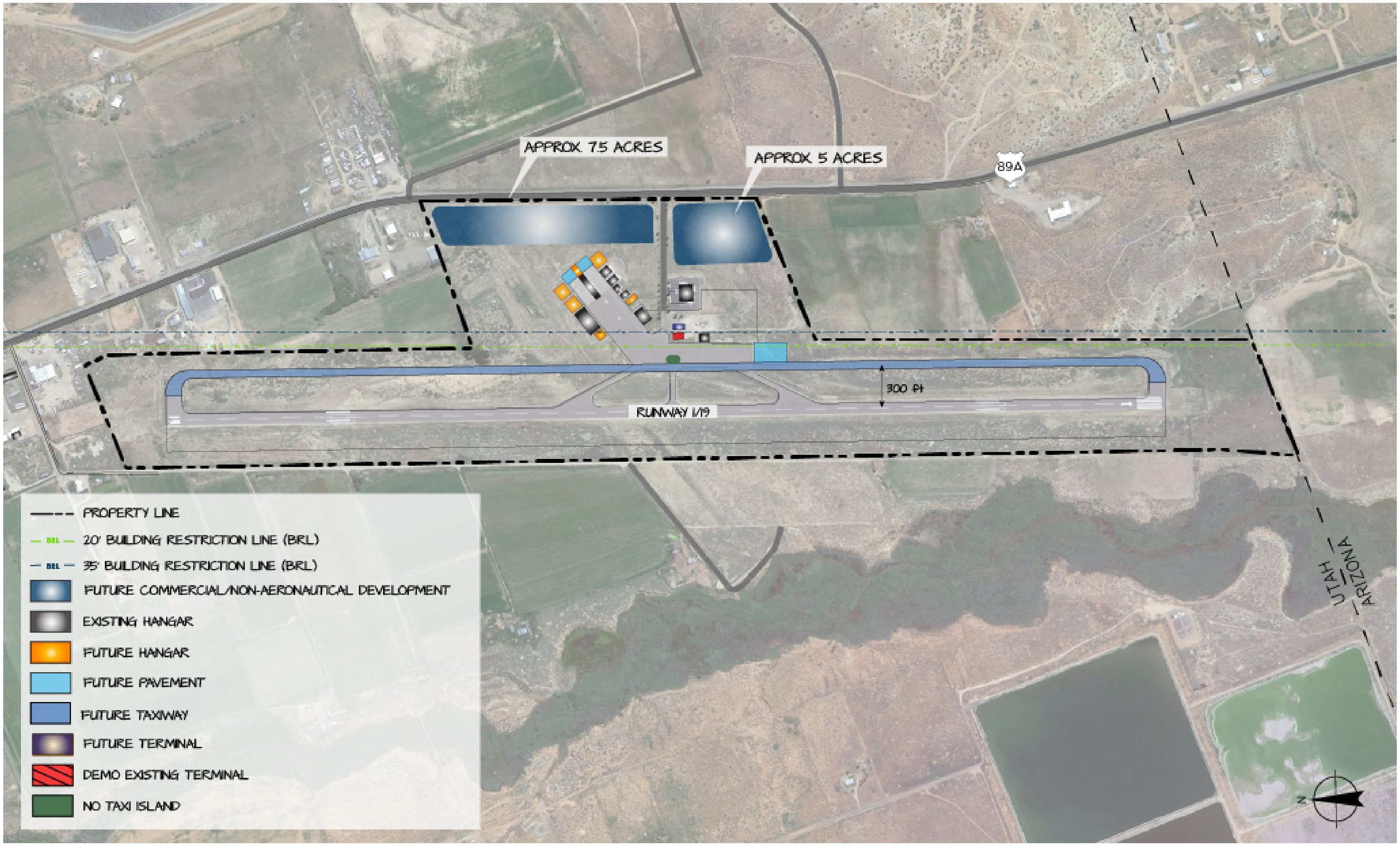
The City of Kanab should examine their options to raise land and building lease rates closer to industry standards, and also negotiate lease terms shorter than 50 years. The current leases do not include provisions for renegotiating before the lease term expires. If the City attempts to force renegotiation of the leases before the term expires, there may be penalties and other costs, unless both parties mutually agree to renegotiate the terms of the lease. The City should obtain a legal opinion concerning their options in moving forward with lease holders.

Only three leases, all with the same party, have subordination clauses that stipulate the lease is subordinate to federal agreements. However, the City could approach lease holders, particularly Kane County regarding the land lease for the emergency building, and note that the lease is not in conformance with the FAA grant assurances and should be amended. If the lease holders agree to voluntarily renegotiate, that would allow the City to bring the leases into conformance with the grant assurances. If the lease holders do not agree to renegotiate voluntarily, then the City can either wait until the leases reaches the end of their current terms, or else attempt to force parties to renegotiate before the lease term expires, which could be potentially costly to the City. Again, a legal opinion should be obtained before moving forward.

---

[1] Source: FAA Airport Compliance Manual, Chapter 12, Sect. 12.3 Review of Agreements, b. Form of Lease or Agreement, (3) Term.

FIGURE 6-2 – PROPOSED COMMERCIAL/NON-AERONAUTICAL DEVELOPMENT



Source: Jviation

Future leases at KNB should consider charges within the following ranges. It is up to the City to determine the appropriate rates and charges to negotiate with each tenant, within the provisions of FAA's sponsor grant assurances.

- unimproved land lease: 10 cents to 25 cents per square foot, per year
- improved land (graded, with utility hookups): 25 cents to 30 cents per square foot, per year
- building lease: $1.00 to $2.00 per square foot, per year
- T-hangar rental rate: $200 per month
- Tie-downs: $70 to $100 per month
- Corporate hangar: $800 to $1,000 per month

3. In the current KNB tenant leases, there are no references to Airport Minimum Standards; compliance with airport security or environmental regulations; the sponsor's right to relocate tenants; renegotiate rates and charges; and no reference to rate escalation clauses.

Recommendation:

The City of Kanab should insert clauses in the tenant leases, when existing leases come up for renewal and in new leases, that reference the airport minimum standards, if they are adopted, as well as compliance with any pertinent airport security or environmental regulations (including those promulgated by the federal and/or state government), as may be appropriate to Kanab; the City's right to relocate tenants with prior notice; the City's right to renegotiate rates and charges at regular intervals (e.g. every five years – to be decided by the City); and insert rate escalation clauses based on the consumer price index (CPI), or other appropriate measures of inflation.

Regarding tenant leases in general, airport sponsors should include lease provisions that:

- Ensure the sponsor controls the land uses within the leasehold area, including having the right to review and approve or deny any changes to land uses prior to any changes.
- Specify that the sponsor has the right to review and approve or deny any sub-lease prior to entering into such agreements.
- For any lease with a term of 10 years or longer, specify the sponsor's right to renegotiate the lease term at specific intervals if conditions on the airport have changed, and/or FAA has amended their guidance to sponsors regarding leases and/or rates and charges within that time period. For lease terms greater than 30 years, request FAA review and comment prior to executing the lease.
- Specify who is responsible for maintenance of the leasehold area and the improvements situated on it, including a clear definition of "good condition."
- Include a reversion clause specifying that all improvements made to the leasehold area revert to the ownership of the airport sponsor at the termination of the lease. The owner typically has the right of first refusal to negotiate a lease as a tenant.
- Specify a fixed schedule of increases in rates and charges within specific time periods. Often such increases are tied to the Consumer Price Index (CPI), but other measures can also be used.

- Specify the conditions and time periods when the lease terms can be renegotiated.
- Include a subordination clause that specifies that all lease provisions are subordinate to any federal agreement entered into by the City, and as may be amended from time to time.
- Clearly stipulate that tenants must comply with all appropriate and pertinent federal, state, and local regulations dealing with environmental issues, licenses, permits, and approvals, building and fire codes, etc., as may be amended from time to time.
- Include a specific provision to allow the airport sponsor to enter and inspect the leasehold area and all improvements at sponsor's discretion.
- Specify that the airport sponsor has the right to relocate the tenant and the improvements on the leasehold area with a specified amount of prior notice, and just compensation.
- Specify that any and all tenants will ensure that their activities and improvements are fully compatible with airport and aircraft operations, including all pertinent FAA requirements.
- Include specific references to the FAA Sponsor Assurances, in particular to the clauses requiring tenants to "furnish their services on a reasonable, and not unjustly discriminatory, basis to 1) all users of the airport, and 2) charge reasonable, and not unjustly discriminatory, prices for each unit or service."

6.4.1 FAA Guidance and Role in Airport Leases

Leases between airport sponsors and tenants are not formally approved by the FAA, but FAA may review and comment on leases if specifically requested to do so by the Airport Sponsor, or in response to complaints filed under 14 CFR Part 13 or Part 16 by airport tenants or parties wishing to be tenants (i.e. those entities with legal standing).

Leases are typically just one of a number of guiding documents adopted by airport sponsors, along with minimum standards and airport rules and regulations. Some of the more significant differences between leases and minimum standards include:

- Leases are legal contracts between the Sponsor and individual legal entities situated on and/or doing business on the airport. Minimum standards are applicable to a broad class of commercial aeronautical service providers physically based on the airport, and standards also frequently identify exempted parties.
- Lease terms and rates are negotiated between the Sponsor and each individual tenant, and are updated at specified intervals. Minimum standard terms and conditions are applicable to a broad class of commercial aeronautical service providers situated on the airport.
- Leases can only be updated / amended / extended at specified periods, unless otherwise mutually agreed to by both parties. Minimum standards can be amended or revised at the sole discretion of the airport sponsor at whatever interval or frequency determined solely by the sponsor.
- Every tenant situated and/or doing business on the airport has a lease or other agreement with the Airport Sponsor. Some airport tenants are excluded from the provisions of minimum standards, such as concessions, private non-commercial parties, and airlines.

Leases with airport tenants must be consistent with the following provisions of the FAA grant assurances:

- Grant Assurance 5 - Preserving Rights and Powers
- Grant Assurance 22 - Economic Nondiscrimination
- Grant Assurance 23 - Exclusive Rights
- Grant Assurance 24 - Fee and Rental Structure
- Grant Assurance 25 - Airport Revenues
- Grant Assurance 38 - Hangar Construction

Leases with non-aeronautical tenants on an airport should include provisions that specify that the land use is fully compatible with airport and aircraft operations, particularly regarding noise, penetrations of imaginary surfaces, creation of any visual or electronic interference with aircraft communications, navigation, or other instruments (Appendix 5-A).

The Transportation Research Board (TRB) Airport Cooperative Research Program (ACRP) published the "Guidebook for Developing and Leasing Airport Property," ACRP Report 47, in 2011. That report summarized the legal requirements for leases in terms of compliance with FAA policies, noted above, as well as project development considerations, leases for FBO and specialized aviation service operators (SASO), airport finances, project analysis and lease agreement checklist, a list of best practices (presented below), as well as a number of specific case studies of leases executed by various airport sponsors. The ACRP report noted:

"A recommended best practice is that airport sponsors develop a standard Airport Leasing Policy that applies to both facility and land leases. The Leasing Policy must be flexible enough to allow for unanticipated development opportunities while being comprehensive enough to account for multiple tenant types and operations. A standard, comprehensive Leasing Policy provides for the equitable treatment of all airport tenants and will minimize questions, concerns, and potential conflict between the airport and its tenants. The Leasing Policy should include, at a minimum, the following provisions:

- Land lease rates (per square foot), differentiated by area. Aeronautical versus non-aeronautical, for example, and consideration of the land's proximity to infrastructure.
- Hangar lease rates (per square foot), with consideration to the gauge of aircraft that the hangar will accommodate in terms of hangar door size, height, and clear span distance.
- Building and facility lease rates (per square foot).
- Standard lease terms that are compliant with state and local law.
- FBO/SASO (specialized aviation service operator) lease requirements, which are consistent with an airport's Minimum Standards.
- Process for adjusting rents and fees (living clause).
- Insurance requirements, preferably in one document and adopted by official action, of the governing body.
- Consolidation of all insurance requirements applicable to the airport allows an airport to review, update, and have them reconsidered by the governing body from time to time.

- Obligations of lessee as specified in a Rules and Regulations document.
- Routine inspection provisions for safety and compliance of airport tenants and users.
- Construction and improvement standards that outline pre-approval by the landlord and the airport sponsor, local permitting agency requirements, and FAA notification of proposed construction once all other approvals are secured.
- Subletting policy."

"Ensuring that any proposed project is in compliance with all applicable FAA, NEPA, state, and local regulations is the responsibility of the airport sponsor, and, as such, the sponsor must remain engaged throughout the project planning, development, and execution phases."

6.5 Revenue Enhancement Options

The FAA requires airports to be as "financially self-sufficient as possible." The FAA also requires that all revenue generated on an airport, from both aeronautical and non-aeronautical sources, be dedicated solely to airport operating or capital expenses.

The two primary ways to achieve financial self-sufficiency are to control costs and maximize revenue generation (**Table 6-5**). FAA does not dictate what specific rates and charges should be in place. FAA's primary criteria is that the rates and charges in effect at an airport are "reasonable and non-discriminatory," that the airport charge fair market value for use of airport land and buildings, and that the rates and charges result in the Airport being as financially self-sufficient as possible.

TABLE 6-5 – EXAMPLES OF AIRPORT REVENUES AND EXPENSES

Type of Expense/Revenue	Costs/Expenses	Revenue/Funds
Capital	– Airfield construction – Terminal construction – Ground transportation infrastructure	– FAA, State Grants – Loans – Operating Surplus
Operating	– Operations & Maintenance (O&M) – Administration – Airport/air service marketing/promotion	– Aeronautical (landing fees, parking fees, fuel flowage, etc.) – Non-aeronautical (vehicle parking, concessions, advertising, non-aeronautical commercial uses, etc.)

Source: Airport Cooperative Research Program (ACRP) Report 77

In response to a number of filings from airport tenants concerning the reasonableness of rates and charges, FAA has held that airports are allowed to set rates and charges that recover the cost of maintaining and operating the airport. However, airport sponsors cannot set rates and charges to recover capital expenditures made with FAA grants.

Table 6-6 shows the City of Kanab's budgeted and actual expenses for the airport budget for fiscal years (FY) 2015 and 2016.

TABLE 6-6 – KNB AIRPORT EXPENSES, FY 2015 AND 2016

	FY 2015	FY 2016	% Difference
Budgeted Expenditures	$171,500	$185,892	8.4%
Actual Expenditures	$218,945	$139,765	-36.2%
Difference between Budgeted vs. Actual	**27.7%**	**-24.8%**	**--**

Source: City of Kanab Budget. Note: airport revenues were not available.

The two largest expense categories were fuel purchases (61.5%) and labor (9.3%). Labor costs declined by 46.7% between FY 2015 and 2016. Equipment supplies and maintenance represented 7.1% of expenses.

In order to achieve financial self-sufficiency, airports can adjust their rates and charges periodically to increase revenue. The leases in effect at KNB do not include escalation clauses or a schedule to renegotiate rates and charges, which limits the City's ability to adjust rates and charges based on changing conditions at the airport (e.g. rising operating and maintenance costs, etc.)

While increasing rates and charges typically result in higher revenues, there are a number of factors to be considered:

- Existing tenant leases and agreements: The provisions of the existing tenant leases and agreements serve as legal obligations, and terms and conditions can be renegotiated at periods specified within the lease, or when the lease/agreement expires and a new lease is negotiated. As noted previously, FAA does not allow tenant leases with terms of 50 years or greater since that constitutes de facto transfer of property, as well as the transfer of the airport sponsor's rights and powers.
- Competition from area airports: increases in rates and charges have an impact on aviation activity at the Airport. General aviation aircraft owners and operators are relatively price sensitive, and will shift their operations to other airports with lower hangar and tie-down fees, and fuel prices. Hangar fees, parking fees, and fuel prices at KNB are very competitive regionally.
- FAA Sponsor Grant Assurances state that airport sponsors and its tenants must charge "reasonable and not unjustly discriminatory prices;" each FBO is subject to uniform rates and fees utilizing similar facilities; and the airport cannot enter into exclusive agreements for aeronautical services.
- It (i.e. the airport sponsor) will make the Airport available as an airport for public use on reasonable terms and without unjust discrimination to all types, kinds and classes of aeronautical activities.
- In any agreement, contract, lease, or other arrangement…the sponsor will insert and enforce provisions requiring the contractor to furnish said services on a reasonable, and not unjustly discriminatory, basis to 1) all users thereof, and 2) charge reasonable, and not unjustly discriminatory, prices for each unit or service, provided that the contractor may be allowed to make reasonable and nondiscriminatory discounts, rebates, or other similar types of price reductions to volume purchasers.
- Each fixed-based operator (FBO) at the Airport shall be subject to the same rates, fees, rentals, and other charges as are uniformly applicable to all other fixed-based operators making the same or similar uses of such airport and utilizing the same or similar facilities.
- It (i.e. the airport sponsor) will permit no exclusive right for the use of the Airport by any person providing or intending to provide aeronautical services to the public.

6.6 Minimum Standards

FAA recommends that airport sponsors adopt minimum standards primarily as a management tool. FAA notes: "A sponsor's establishment of minimum standards and self-service rules and regulations contributes to nondiscriminatory treatment of airport tenants and users. It also helps the sponsor avoid granting an exclusive right."[1]

However, FAA does not require airport sponsors to adopt minimum standards – the airport sponsor decides whether to adopt standards or not. Also, unless specifically requested to do so, FAA typically does not review or comment on minimum standards.

FAA's Advisory Circular, 150/5190-7, *Minimum Standards for Commercial Aeronautical Services*, provides guidance for airports that wish to adopt or amend their minimum standards. As noted in the AC:

> **1.1. POLICY.** The airport sponsor of a federally obligated airport agrees to make available the opportunity to engage in commercial aeronautical activities by persons, firms, or corporations that meet reasonable minimum standards established by the airport sponsor. <u>The airport sponsor's purpose in imposing standards is to ensure a safe, efficient and adequate level of operation and services is offered to the public. Such standards must be reasonable and not unjustly discriminatory</u>. In exchange for the opportunity to engage in a commercial aeronautical activity, an aeronautical service provider engaged in an aeronautical activity agrees to comply with the minimum standards developed by the airport sponsor. Compliance with the airport's minimum standards should be made part of an aeronautical service provider's lease agreement with the airport sponsor.
>
> <u>The FAA suggests that airport sponsors establish reasonable minimum standards that are relevant to the proposed aeronautical activity with the goal of protecting the level and quality of services offered to the public</u>. Once the airport sponsor has established minimum standards, <u>it should apply them objectively and uniformly to all similarly situated on-airport aeronautical service providers</u>. The failure to do so may result in a violation of the prohibition against exclusive rights and/or a finding of unjust economic discrimination for imposing unreasonable terms and conditions for airport use.
>
> **c. Developing Minimum Standards.** When developing minimum standards, the most critical consideration is the particular nature of the aeronautical activity and operating environment at the airport. <u>Minimum standards should be tailored to the specific aeronautical activity and the airport to which they are to be applied</u>. For example, it would be unreasonable to apply the minimum standards for a fixed-base operator (FBO) at a medium or large hub airport to a general aviation airport serving primarily piston-powered aircraft. The imposition of unreasonable requirements illustrates why "fill- in-the-blank" minimum standards and the blanket adoption of standards of other airports may not be effective. (note: underline added)

---

[1] FAA Order 5190.6B, Chapter 10, Section 10.2

There are a number of factors regarding minimum standards that are relevant in terms of whether a particular airport should adopt them:

- Minimum standards are typically applied only to privately-owned, commercial aeronautical service providers on an airport (as noted in the title of FAA's advisory circular). Minimum standards are normally not applicable to private tenants such as airplane owners who base their aircraft at the airport. FAA also notes that there is no requirement to include non-aeronautical activities in minimum standards, such as rental car agencies, restaurants, concessions, etc., because they are no subject to the grant assurances. If the City of Kanab attracts non-aeronautical tenants such as light industrial, office, storage companies, for example, those businesses would not be subject to minimum standards. FAA also notes that minimum standards typically do not apply to flying clubs because they are (usually) non-profit organizations, although an airport sponsor could make their standards applicable to flying clubs and other non-profit organizations (such as the CAP) if they so choose.
- FAA Order 5190.6B, *Airport Compliance Manual*, Chapter 10, Reasonable Commercial Minimum Standards, notes that airport sponsors have the "prerogative to establish minimum standards for commercial service providers, and to establish self-service rules and regulations for all other airport activities. Flying clubs are not-for-profit commercial operations and are not normally covered by commercial minimum standards."
- Because the City is the FBO at KNB, and because there are leases in place with the airport tenants, the City may not need to adopt minimum standards. If a privately-owned FBO will come onto the airport (e.g. a flight school, maintenance shop, etc.), it is often more efficient to adopt minimum standards before that business arrives.
- Where the City of Kanab currently has leases with airport tenants, the leases legally supersede any minimum standards that may be adopted. And leases typically stipulate standards and procedures for a sponsor to ensure that tenants are maintaining their facilities and complying with City and FAA rules and regulations. FAA recommends that sponsors incorporate references to the minimum standards in the tenant leases, however, it is challenging to renegotiate leases and insert new references, particularly if there are any differences between the lease provisions and the minimum standards.
- As noted by FAA, minimum standards are primarily intended as a management tool for airport sponsors. FAA states that minimum standards are one way of demonstrating compliance with the grant assurances. In addition, minimum standards help protect investment made by private aeronautical service providers by restricting access by other businesses (such as independent flight instructors and mechanics) that do not comply with the standards but syphon business away from approved businesses. Given the current situation at KNB, it is possible that there are adequate management tools in place without minimum standards. However, a private aeronautical service provider on the airport could be offered greater protection with minimum standards.
- Because minimum standards are just one of a number of management tools that include leases (already in place), FAA grant assurances and regulations (already in place), approved airport master plan and airport layout plan (previous one in place), and airport operating rules and regulations (may be adopted), any standards must be fully compatible with the other guiding documents. Given that leases, as well as FAA grant assurances and regulations,

legally supersede minimum standards, the City should identify clear goals and objectives for minimum standards so that they do not overlap or contradict the other guiding tools/documents that are currently in place. For example, if minimum standards were adopted that contained different requirements than are currently stipulated in tenant leases, it would be difficult for the City to renegotiate the leases to make them consistent with the minimum standards. Additionally, if the minimum standards were not fully compliant with the FAA grant assurances, FAA would object.

If the City wishes to adopt minimum standards, FAA provides the following guidelines:

- Minimum standards must be:
  - reasonable and not unjustly discriminatory
  - attainable by existing and future tenants
  - applied uniformly to all tenants
  - relevant for the activity to which they apply
  - tailored to each individual airport
- Minimum standards may not confer an exclusive right

One other factor is that once minimum standards are enacted, it is the airport manager's responsibility to enforce them. When considering adopting standards, in addition to FAA's requirements noted above, they should also be evaluated in terms of the airport management's ability to enforce the standards.

Because FAA strongly recommends that minimum standards be tailored to each individual airport, reviewing other airport minimum standards have some, but limited applicability to KNB.

6.7 Summary and Conclusions

Financial management for all airport sponsors is challenging. Airports operate in a highly regulated and at the same time competitive environment. As noted above, while FAA does not set rates and charges, it does set specific guidelines for leases, and FAA also strongly encourages airports to be as financially self-sufficient as possible. The FAA also requires that all revenues generated on an airport, from both aeronautical and non-aeronautical sources, be dedicated solely to airport-related operating and capital expenses.

A related challenge for airport sponsors is that capital costs are often high, and airports are dependent on a variety of sources of funding for capital improvements including the FAA, the State, other agencies, as well as investment from private parties.

On the other hand activity levels at airports, along with airport-related revenues, fluctuate over time, sometimes over a very large range. And as discussed in previous chapters, aviation activity levels and revenues are subject to a wide variety of factors that are difficult to predict. As a result, airport sponsors must monitor activity and revenues on a regular basis, including aviation-related revenues, and adjust their capital investment plan as well as their operating and maintenance costs as needed.

For KNB, the development of the approximately 12 acres in the terminal area by non-aeronautical commercial – light industrial tenants has the greatest potential to increase revenues for the airport. Bringing the leases into compliance with FAA guidance, for example lease terms will be less than 60 years, as well as setting rates and charges that will move the airport towards financial self-sufficiency, are also recommended. The City of Kanab can prepare an airport business plan that can provide a detailed road map to achieve those objectives, building on the recommendations presented in this Master Plan.

In addition, the U.S. Congress is in the process of developing a new Airport Improvement Program (AIP), which serves as the funding source for FAA grants for airport development. The federal formulas and funding levels that have been in place since 2012 may change in the new program, which could directly impact funding availability for GA airports such as Kanab.

Once the new AIP program has been signed into law, changes in funding levels and formulas for the disbursement of the funds, including the GA entitlement grants, should be assessed for their impact on KNB's CIP.

The financial goals and strategy presented in this chapter are consistent with FAA's grant assurances that airports should be as financially self-sufficient as possible.

APPENDIX 6-A

Sample Airport Lease Provisions for Non-Aeronautical Tenants

NON-AERONAUTICAL TENANT - SAMPLE LEASE PROVISIONS

RIGHT OF AIRCRAFT OVERFLIGHT OF LEASEHOLD PROPERTY AND COMPLIANCE WITH APPROPRIATE STANDARDS

Lessee agrees that it will permit the unobstructed use and passage of any and all types of aircraft in and through the airspace at any height or altitude above the surface of the leasehold property without any restriction or interference to said aircraft.

Lessee agrees to the right of said aircraft to cause noise, vibrations, fumes, deposits of dust, fuel particles (incidental to the normal operation of aircraft); fear, interference with sleep or communication, and any other effects associated with the normal operation of aircraft taking off, landing or operating in the vicinity of Kanab Municipal Airport (KNB).

As used herein, the term "aircraft" shall mean any and all types of aircraft, whether now in existence or hereafter manufactured and developed, to include jet, propeller-driven, civil, military or commercial aircraft; helicopters, regardless of existing or future noise levels, for the purpose of transporting persons or property through the air, by whoever owned or operated.

Lessee agrees to make no improvements, modifications, or other physical changes within or to the leasehold area without prior written approval of the Lessor.

Lessee agrees that they will not construct, erect, suffer to permit or allow any structure, improvements, or vegetation on or in the vicinity of the surface of the designated leasehold property that may currently or potentially impact airport and/or aircraft operations on and in the vicinity of the Airport, including violate any standard, requirement, or prescription applicable to the Airport that has been or may be imposed by the Federal Aviation Administration, including but not limited to 14 CFR Part 77, *Safe, Efficient Use, And Preservation of the Navigable Airspace*, FAA Advisory Circular 150/5300-13A, *Airport Design*, FAA Order 8260.3B, *United States Standard for Terminal Instrument Procedures (TERPS)*, and the Airport Layout Plan (ALP) approved by the City of Kanab, Utah, and the Federal Aviation Administration, as may be amended from time to time.

Further, any places of public assembly or gatherings on or within the leasehold property are not permitted. Examples of uses not permitted on leasehold property include but are not limited to: places of worship, schools, child day care facilities, hospitals, stadiums, residential areas, or other uses that may attract an assembly or gathering of people.

Lessor may permit the construction of offices or other places of employment on leasehold property if said development is fully consistent with all standards, requirements, and prescriptions that have been or may be imposed by the Federal Aviation Administration, and consistent with the approved Airport Layout Plan (ALP).

Lessor will permit Lessee, if requested to do so, the right to grow and harvest crops or graze livestock within the leasehold property, so long as the activity will not attract or permit wildlife that may pose a hazard to aircraft, and will not violate any standard, requirement, or prescription that has been or may be imposed by the Federal Aviation Administration.

Lessee agrees to keep the leasehold area free of the following:

- Structures, lights, or emissions (permanent or temporary) that might create visual glare, distractions, or misleading lights to pilots or other airport users;
- fuel handling and storage facilities;
- any smoke generating activities;
- the creation of any electrical signal or transmission that could potentially interfere with the movement of aircraft over or in the vicinity of the Airport, or interfere with the communications or navigation equipment used in aircraft on and in the vicinity of the Airport.

Lessor and its assigns has a perpetual right of ingress/egress to the leasehold property, as well as the right to remove any structure or vegetation, at full cost to the Lessee, that is not specifically approved by Lessor, or which violates any standard, requirement, or prescription that has been or may be imposed by the Federal Aviation Administration.