Appendix A. Business & Financial Plan Analysis, February 2014

Business & Financial Plan Analysis

Prepared for

St. Cloud Regional Airport
St. Cloud, Minnesota

Prepared by

Mead & Hunt

DELTA AIRPORT CONSULTANTS, INC.

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1. Introduction & Background

Chapter 6 of the St. Cloud Regional Airport (STC) Master Plan Update offers a baseline evaluation of the Airport's operating revenues and expenses for the period FY2006 through FY2012(Budget). Through this analysis, a framework for understanding future impacts associated with implementation of the Master Plan's selected capital improvement plan (CIP) is provided. Moreover, trend data are presented related to the generation and application of STC revenues during this period. As depicted in this Chapter, total airport operating revenue during this period experienced modest growth increasing from $600,756 in FY2006 to $741,900 in FY2012(Budget); representing an increase in revenue of approximately $142,000 which translates to a four percent compounded annual growth rate for this period. During this same period, expenditures increased from $689,736 in FY2006 to $741,900 in FY2012 (Budget) reflecting a compounded annual growth rate of one percent. Overall, the Airport witnessed a cumulative net operating loss of $288,572 during this period driven primarily by the withdrawal of Delta Connection service in 2010, associated passenger revenue (rental car and concessions) declines linked with this service, and the negative impacts of the economic recession on general aviation activity at STC.

In December 2012, Allegiant Air inaugurated service at STC to Phoenix, AZ and recently announced expanded service to Orlando, FL as of December 2013. With the re-establishment of commercial air service in the STC market by Allegiant, the City is seeking to understand the impacts this service, as well as the potential return of daily scheduled service by an affiliated network airline to a major mid-west hub airport, will have on airport revenues and expenses.

In August 2013, STC authorized Mead & Hunt, Inc. to provide an updated financial overview of the St. Cloud Regional Airport (STC) gauging the impact to both revenues and expenses based upon current and forecast air carrier passenger service activity at STC as presented in the 2013 Master Plan Update. This program of work analyzes STC's financial performance in the current year (FY2013) as well as its potential performance during the short-term planning horizon (FY14-18) under three distinct scenarios:

Base – 10,000 to 50,000 enplanements
Moderate – 50,000 to 100,000 enplanements
Rapid – 100,000 to 150,000 enplanements

The Base scenario assumes STC passenger levels return to an annual volume consistent with historical actual activity experienced between the period 2001 and 2008. The Moderate scenario forecasts revenue and expenses assuming enplanements total 66,438 in 2016 while the Rapid scenario expects enplanements to be 141,549 in 2016.

This analysis is formatted to summarize the methodology deployed in preparing this analysis, offers an update to STC's historical operating revenues and expenses for the period FY2008 through FY2014(Budget), provides forecasts of operating revenues and expenses for each of the three scenarios, and offers recommendations to the City related to its CIP and revenue enhancement opportunities.

2. Methodology

In order to develop reasonable planning level forecasts of anticipated airport operating revenues and expenses for each of the defined scenarios, information was collected and reviewed to build a comprehensive base and understanding of current trends and developments related to STC's financial performance including:

- Applicable Chapters from the 2013 STC Master Plan
- 2013 STC Economic Impact Study
- 2012 STC Passenger Demand Analysis
- 2011 and 2012 STC Working Papers prepared for completion of *The Operating and Financial Summary, FAA Form 5100-127* (Form 127)
- FY2013 STC Profit and Loss Statement for the Period Ending October 29, 2013
- FY2014 STC Requested Budget Revenues & Expenses
- 5 year STC FAA Airport Capital Improvement Plan
- FY2012 City of St. Cloud Comprehensive Annual Financial Report
- Relevant on-line data sources

Upon compilation and review of these data, historical operating revenues and expenses listed in **Tables 6-1 and 6-2** of the Master Plan were updated for the period FY2008-FY2014 (Budget) in order to present and describe the current financial position of STC.

To accomplish the development of five year financial outlooks for the three separate air service development scenarios, a peer group of air carrier airports with 2012 enplanements ranging from 15,630 to 161,452 was identified. Operating characteristics and performance measures for each peer airport were collected and the group was further segmented to fit the enplanement ranges for the Base, Moderate, and Rapid Growth enplanement scenarios. **Table 1.1** provides a list of the peer airports along with 2012 enplanements and aircraft operations data as reported by the FAA, current airline landing fees, full-time equivalent employees (FTEs), and the number of network and ultra-low cost carriers and rental car operators serving each airport.

STC – BUSINESS & FINANCIAL PLAN
TABLE 1.1 PEER AIRPORTS (FY 2012)

Airport	Code	Enplanements	Aircraft Operations	Airport FTEs	Landing Fee	Network Carriers	Ultra-Low Cost Carriers	Rental Operators
Base								
Eau Claire	EAU	19,062	30,217	5.5	$1.17	1	0	3
Rhinelander	RHI	26,764	29,240	7	$1.75	1	0	4
Brainerd	BRD	15,630	26,275	6	$0.74	1	0	3
AVG		20,485	28,577	6	$1.22	1	0	3
Moderate								
LaCrosse	LSE	95,800	13,520	14	$3.78	2	0	6
Yakima	YKM	57,673	16,895	9	$1.29	1	1	2
Central Neb	GRI	56,138	15,117	9	$0.72	1	1	2
AVG		69,870	15,177	11	$1.93	1	1	3
Rapid								
Rochester	RST	105,371	18,525	N/A	N/A	3	1	5
Grand Forks	GFK	137,988	237,435	24	$2.04	2	1	4
Duluth	DLH	161,452	29,179	21	$1.13	2	1	6
AVG		134,937	95,046	23	$1.59	2	1	5

Beyond operational characteristics and data, FAA Form 127 financial data related to airline revenues, passenger-generated revenues, and operating expenses for 2012 were also compiled for each of the peer airports. **Table 1.2** lists *only* airline and passenger generated operating revenues, all operating expenses, and averages for each peer airport grouped by scenario.

It is important to note that this analysis focuses solely on airline and passenger-generated revenue trends at these airports and how they might be applicable to STC. Calculations of revenue per enplaned passenger for each airport was calculated and averaged for the Base, Moderate, and Rapid Scenarios and then applied to STC forecast airline and passenger-generated revenues. These revenue forecasts were then uploaded to the financial model developed for each scenario, along with STC's non-airline and non-passenger generated revenues to yield an estimation of total revenues. It is assumed that STC's future non-airline and non-passenger generated revenues would trend based on historical actual results for the period FY2006-14(Budget) and therefore remain consistent for each scenario.

Forecasts of future revenues along with operations and maintenance (O&M) expenses for STC are provided for each scenario for the period FY2015-18.

The techniques utilized in this analysis are consistent with industry practices for similar studies which are used to evaluate future financial results. While it is believed that the approach and assumptions are reasonable, it should be recognized that some assumptions regarding future trends and events might not materialize. Achievement of the forecasts and operating results for each scenario as described herein are dependent upon the occurrences of future events and variations may be material.

3. Historical Airport Revenues

Table 1.3 depicts STC's revenues for the period FY2010 through FY2013 along with Requested Budgeted Revenues for FY2014. During this 5 year period, total airport operating revenue is anticipated to increase from $654,475 in FY2010 to $829,000 in FY2014 (Budgeted); representing an increase in revenue of approximately $174,525 translating to a six percent compounded annual growth rate for this period. As of FY2014(Budget), local property tax revenue support from the City of St. Cloud is expected to account for approximately 57 percent of STC's revenue base. Beyond general tax revenue, the FY2014 proposed budget forecasts T-hangar rent (12%), the MNDOT Airport Maintenance Grant Program (11%), and Land & Non-Terminal Rents (10%), to generate the vast majority of remaining revenues for STC.

STC – BUSINESS AND FINANCIAL PLAN

TABLE 1.2 FINANCIAL DATA: AIRLINE & PASSENGER GENERATED OPERATING REVENUES, AND ALL OPERATING EXPENSES

SCENARIO			BASE			MODERATEE					RAPID	
	EAU	**RHI**	**BRD**	**AVG**	**LSE**	**YKM**	**GRI**	**AVG**	**RST**	**GFK**	**DLH**	**AVG**
Airline revenue (not including charter)												
Passenger airline landing fees	$40,216	$118,394	$31,861	***$63,490***	$459,641	$102,055	$64,874	***$208,857***	$142,369	$397,909	$308,422	***$282,900***
Terminal arrival fees - rents - utilities	$103,198	$169,598	$61,082	***$111,293***	$625,316	$185,016	$0	***$270,111***	$454,529	$543,926	$513,479	***$503,978***
Terminal area apron charges/tiedowns	$0	$0	$0	***$0***	$0	$0	$0	***$0***	$68,250	$86,402	$18,121	***$57,591***
Other passenger aeronautical fees	$0	$0	$0	***$0***	$0	$0	$0	***$0***	$0	$5	$0	***$5***
Total Passenger Airline Revenue	**$143,414**	**$287,992**	**$92,943**	***$174,783***	**$1,084,957**	**$287,071**	**$64,874**	***$478,967***	**$665,148**	**$1,028,242**	**$840,022**	***$844,471***
Passenger Revenue												
Terminal-food and beverage	$26,839	$0	$11,536	***$19,188***	$16,976	$7,871	$0	***$12,424***	$16,142	$50,518	$5,167	***$23,942***
Terminal-retail stores and duty free	$0	$0	$0	***$0***	$0	$0	$0	***$0***	$0	$0	$7,162	***$7,162***
Terminal-services and other	$19,597	$71,236	$0	***$45,417***	$50,916	$0	$0	***$25,458***	$21,340	$2,134	$1,046	***$8,173***
Rental cars-excludes CFC	$80,111	$72,617	$0	***$76,364***	$417,853	$94,959	$52,051	***$188,288***	$282,957	$336,897	$450,958	***$356,937***
Parking and ground transportation	$106,973	$143,612	$0	***$125,293***	$411,704	$161,651	$14,038	***$293,697***	$402,732	$707,114	$848,227	***$652,691***
Total Passenger Revenue	**$233,520**	**$310,787**	**$11,536**	***$185,281***	**$897,449**	**$264,481**	**$66,089**	***$409,340***	**$723,171**	**$1,096,663**	**$1,312,560**	***$1,044,131***
Total Airline & Passenger Revenue	**$376,934**	**$598,779**	**$104,479**	***$360,064***	**$1,982,406**	**$551,552**	**$130,963**	***$888,307***	**$1,388,319**	**$2,124,905**	**$2,152,582**	***$1,888,602***
AIRPORT OPERATING EXPENSES												
Personnel compensation and benefits	$404,631	$541,169	$464,243	***$470,014***	$1,288,169	$712,515	$562,539	***$854,408***	$1,698,352	$1,630,412	$1,574,713	***$1,634,492***
Communications and utilities	$162,973	$115,464	$87,654	***$122,030***	$181,213	$113,225	$113,910	***$136,116***	$405,139	$297,214	$491,896	***$398,083***
Supplies and materials	$147,899	$93,380	$85,247	***$108,842***	$65,191	$40,199	$46,785	***$50,725***	$321,703	$94,734	$273,344	***$229,927***
Contractual services	$10,865	$131,288	$0	***$47,384***	$166,733	$233,715	$39,774	***$146,741***	$434,097	$538,640	$351,208	***$441,315***
Insurance claims and settlements	$29,765	$54,461	$40,435	***$41,554***	$0	$0	$118,228	***$39,409***	$186,250	$63,718	$145,873	***$131,947***
Other Operating Expenses	$22,549	$59,751	$80,697	***$54,332***	$259,899	$0	$500,415	***$253,438***	$92,274	$95,723	$465,864	***$217,954***
Subtotal - Operating Expenses	**$778,682**	**$995,513**	**$758,276**	***$844,157***	**$1,961,205**	**$1,099,654**	**$1,381,651**	***$1,480,837***	**$3,137,815**	**$2,720,441**	**$3,302,898**	***$3,053,718***

Source: FAA:AAS-400, Airport Operating and Financial Summaries, FAA Form 5100-127 (Form 127)

Prepared by: Delta Airport Consultants Inc., October 2013.

Table 1.3
HISTORICAL AIRPORT APPLICATION OF REVENUES
St. Cloud Regional Airport
(For Fiscal Years Ending December 31)

		FY 2010	FY 2011	FY 2012	Estimated FY 2013	Budget FY 2014	CAGR
REVENUES							
Airline Revenues							
Landing Fees		$ -	$ -	$ 938	$ 1,454	$ -	
Terminal Area		16,316	-	-	-	-	
Total Airline Revenues	[A]	$ 16,316	$ -	$ 938	$ 1,454	$ -	
Airline Passenger Generated Revenues							
Rental Car		$ 119	$ -	$ -	$ -	$ -	
Food & Beverage		424	367	268	175	300	-8%
Advertising		-	-	-	-	-	
Parking		-	-	-	-	-	
Total Airline Passenger Revenues	[B]	$ 543	$ 367	$ 268	$ 175	$ 300	
Nonairline revenues	[C]	$ 286,838	$ 292,551	$ 312,754	$ 298,186	$ 353,500	5%
Local Revenues -- City of St. Cloud	[D]	$ 350,778	$ 439,664	$ 474,823	$ 475,200	$ 475,200	8%
TOTAL REVENUES	[E=A+B+C+D]	**$ 654,475**	**$ 732,582**	**$ 788,783**	**$ 775,015**	**$ 829,000**	6%
APPLICATION OF REVENUES							
Salaries, Wages, & Benefits		$ 372,021	$ 366,293	$ 371,560	$ 366,485	$ 416,850	3%
Communication & Utilities		123,819	128,906	118,749	142,562	143,600	4%
Supplies & Materials		99,736	78,606	61,776	92,888	96,300	-1%
Contractual Services		138,315	93,385	80,254	125,286	96,200	-9%
Insurance		23,482	21,332	27,852	29,938	27,000	4%
Other Operating Expenses		33,299	32,607	19,382	17,639	22,100	-10%
TOTAL EXPENSES		**$ 790,672**	**$ 721,129**	**$ 679,573**	**$ 774,798**	**$ 802,050**	0%
OPERATING SURPLUS (DEFICIT)		**$ (136,197)**	**$ 11,453**	**$ 109,210**	**$ 217**	**$ 26,950**	

Source: City of St. Cloud Aviation Department, Delta Airport Consultants, Inc. projections.
Prepared by: Delta Airport Consultants Inc., October 2013.

On December 31, 2009 Mesaba Airlines d/b/a Delta Connection ceased service at STC leaving the Airport without scheduled commercial air transportation service. Revenue derived from Mesaba's operation averaged $57,585 during the period FY2006-2009 and constituted approximately 8.4 percent of the Airport's revenue base. The City collected aircraft landing fees, air carrier terminal building rents, and Terminal Area Apron Fees from Mesaba for its use and occupancy of airport premises. In December 2012 Allegiant Air launched service to Phoenix Gateway Airport from STC. In accordance with the STC Airline Incentive and Marketing Program, fees and charges for Allegiant Air are waived for the first 2 years of initiation of new service. Therefore, no airline revenue is forecast for FY2014. Likewise, given that Allegiant's core market is outbound STC market passengers and passengers arriving the St. Cloud region have not utilized rental cars thus far, rents and fees from rental car activity is not programmed for FY2014 either.

During this same period, City of St. Cloud general fund property tax transfers increased from $350,778 to $475,200 representing a compound annual growth rate of eight percent. The need for increased general fund property tax support for airport operations was driven by the ongoing impacts associated with the elimination of Mesaba Airlines service in 2009 and associated loss of auto rental concession revenue and other fees derived from air carrier flight operations and passengers.

Summary

As shown in **Table 1.3**, total revenues at STC between FY2008 and FY2014(Budget) increased from $654,475 to $829,000 representing a compounded annual growth rate of approximately six percent. The cessation of airline service in 2010, coupled with St. Cloud State University's decision to phase out its Aviation Program and the negative effects of the economic recession on general aviation activity, translated to greater reliance on City general fund property tax revenue during this period.

4. Historical Operating Expenses

Operating expenses for FY2008 through FY2014 (Budget) are also presented in **Table 1.3**. During this period, total airport operating expenses are expected to remain relatively unchanged increasing approximately $11,400 from $790,672 in FY2006 to $802,050 in FY2014 (Budget). Salaries, Wages, and Benefits grew at a compounded annual grow rate of three percent during this period; due primarily to hiring of temporary employees to assist with snow removal and summer grounds maintenance. Non-personnel expenses declined $33,451 or 2 percent per year for the same period. Decreased outlays for Communications, Repairs and Maintenance-Supplies, and Repairs and Maintenance-Services all contributed to the City's ability to control operating expenses during this period.

In terms of the overall cost structure for STC, it is important to note that expenses associated with STC's obligations related to meeting Federal Aviation Regulation Part 139 requirements for the provision of Aircraft Rescue Firefighting (ARFF) services are not expensed by the City to STC. Instead, the full cost of providing ARFF services is borne by the City Fire Department. Additionally, the cost of developing and implementing strategic marketing plans related to attracting and promoting air carrier service is paid for by the Greater St. Cloud Development Corporation (GSDC). While the GSDC coordinates its activities extensively with airport management, the costs associated with underwriting air service development and marketing activities are carried by GSDC. Over the past several years, GSDC, in cooperation with businesses and community leaders in the region, have invested extensively in advertising and promoting the Allegiant Air service. GSDC, and its funding partners, have invested $50,000 in marketing support for the 1st year of service, followed by $25,000 per year in the 2nd and 3rd year of service for a total of $100,000 in funding support for these new routes. As a result of the City not allocating ARFF services charges to STC and GSDC underwriting the air service development and marketing program for the region, the airport enjoys a very low cost structure.

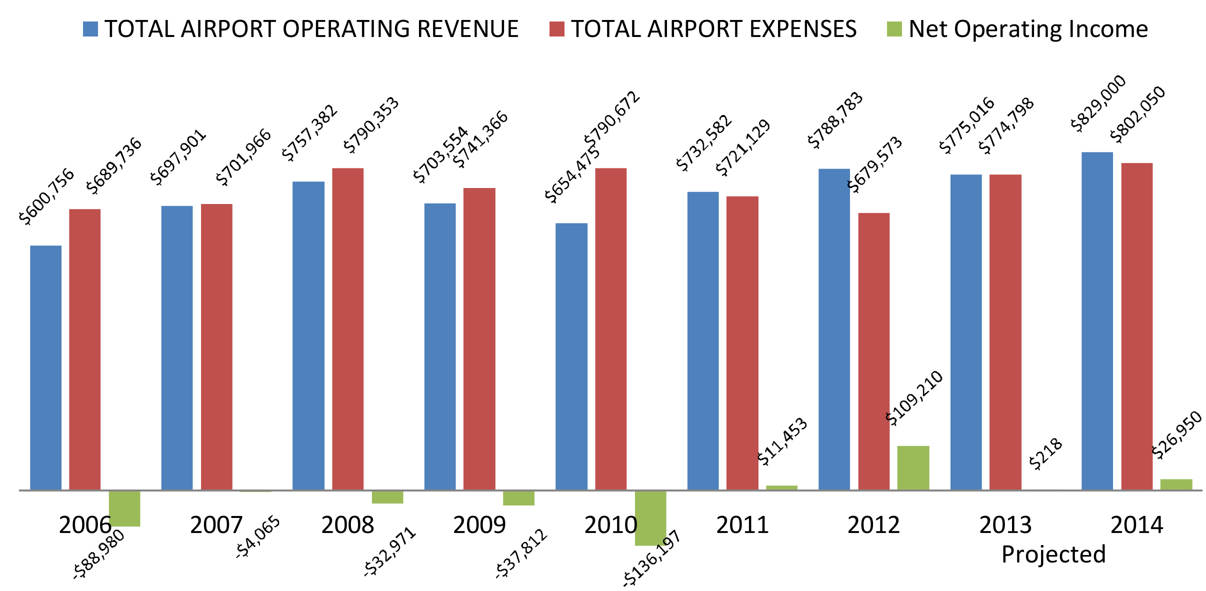
Summary

As shown in **Table 1.3**, total STC operating expenses remained relatively unchanged between FY2010 and FY2014(Budget) increasing by approximately $11,400 from $790,672 to $802,050.

5. Historical Operating Results

Chart 1.1 depicts STC's net operating results for the period FY2006-2014(Budget). For this period, STC is expected to generate an overall operating loss of $152,194. FY2010, the first year STC was without scheduled commercial air service, yielded the greatest financial loss ($136,197) and was preceded by operating losses in FY2007 and 2008. Since FY2010, airport operations have yielded positive financial outcomes due primarily to increased local property tax revenue transfers rather than airport operations and very tight cost controls implemented by the City. With Allegiant's service in the market starting in late 2012 and the potential for STC to be served by a Network carrier to a major Midwest hub, it is reasonable to conclude that more positive financial outcomes are attainable going forward.

Chart 1.1
Historical Operating Revenues & Expenses



6. Airport Capital Improvement Plan (ACIP) Assumptions

STC's adopted Airport Capital Improvement Plan (ACIP) was reviewed as part of this analysis to determine the extent to which it may have an impact on operating expenses in the short-term planning period. The projects listed in the Airport's plan on file with the FAA cover a myriad of airport capacity, safety, and preservation projects. It is anticipated that between FY2013 and FY2017 a total of $17.1 million is to be invested in improvement projects for STC with $11.8 million being allocated by the FAA, $1.1 million from the Minnesota Department of Transportation, and $4.2 from the City. Local funding is derived from a locally imposed special tax for transportation improvements. The projects anticipated to be completed in this time horizon include:

- Extend Runway 13/31
- Airport Security Improvements
- Repair Airfield Pavement
- Relocate Runway 13/31 NAVAIDs
- FBO Hangar Construction
- Construct 10-unit T-Hangar
- Parking Revenue Control System
- Reconstruct Runway 5/23
- Acquire Runway Friction Measuring Equipment
- Install Inset Pavement Lights
- Terminal Parking Lot Expansion
- South G.A. Hangar Development
- North G.A. Apron Rehabilitation

Given the timing of these projects, it is not anticipated that they will have a material effect on operating expenditures. The extended runway will increase pavement maintenance and airfield electrical costs; however, with the availability of high-efficiency LED lights now available for installation, their impact should be marginal. Projects related to pavement rehabilitation could generate cost savings to the Airport as well.

Should STC achieve the level of enplanements forecast for the Moderate or Rapid growth scenarios, the City should evaluate the adequacy of its current air carrier terminal facility and associated amenities including aircraft parking gate areas and automobile parking areas. STC's current 19,000 square-foot air carrier terminal building would be significantly stressed to accommodate enplanement levels envisioned in both of these scenarios. Even today, space for meeters/greeters, airline ticketing, queuing for TSA passenger screening, and baggage pickup for inbound passengers, is very limited during periods of Allegiant's flight operations. Additional parking is also critical to support levels of passengers forecast for these scenarios. Currently, two non-revenue producing public parking lots with a total of 353 stalls support passenger activity at STC. Although an expansion project is slated to be undertaken during the next five years, available space is at a premium during peak travel periods and a temporary parking lot is already being planned/programmed.

Provided revenues from the FAA Airport Improvement Program (AIP), Minnesota Department of Transportation, and City tax collection are made available as programmed in the current STC ACIP, the financing of this five year plan is reasonable and attainable in all of the scenarios. Should STC achieve passenger levels consistent with the Moderate and Rapid growth scenarios, evaluation of air carrier terminal building and automobile parking expansion options should be undertaken.

7. Airport Cash Flow Analysis – Peer Markets

Introduction

Use of benchmarking tools to analyze the financial performance of STC against facilities that have similar operating characteristics and traits is vital to understanding how STC is performing in terms of revenue generation and operating expenses. With this broad base of knowledge, the City can undertake measures to perhaps enhance the flow of revenue and/or control costs. Although these comparative tools offer key insights to how others in the industry are performing, they are not absolute as each facility is unique. This observation is demonstrated throughout **Table 1.2.** For instance, the peer airports selected for the Base Scenario (Eau Claire, Rhinelander, and Brainerd), while having similar levels of passengers as STC prior to withdrawal of Delta Connection service, have varying levels of Passenger Airline Revenue varied from $92,943 to $287,992. For STC, FY2006 produced the highest level of Passenger Airline Revenue ($62,183) which is well below the three peer facilities selected for this study. The amount of space leased to an airline, availability of space, debt service requirements, number of flights, airline ratemaking methodologies, and/or use of Airport/Airline Incentive Programs which abate fees for a period of time all factor into the amount of revenue an airport generates from airlines operating at their facility. Similar variables also influence annual operating expenditures. For STC, which utilizes the City Fire Department to fulfill its ARFF requirements and does not pay directly for this service, its personnel expenditures are below other comparable facilities. Likewise, the age of facilities, energy efficiency of building systems, personnel benefits structure, and employee medical insurance premiums all vary from airport to airport making comparisons difficult.

Because of the fluctuations and variables in data, it is common practice to average revenue data from similar airports and create metrics such as Average Parking Revenue per Enplaned Passenger, Rental Car Revenue per Enplaned Passenger, and Restaurant/Catering Revenue per Enplaned Passenger. These metrics are then applied to forecasts of future enplanements to yield a forecast of revenues. Detailed information on these metrics is provided in **Appendix A**.

For expenditures, development of metrics is not as reliable because of the complexities and lack of similarities between the various cost structures for the airports evaluated. Therefore, it is assumed that STC's historical cost structure would provide the foundation for estimating costs in the Base and Moderate scenarios, including assuming the City would provide ARFF services at no cost and the GSDC continues to fund air service development and marketing initiatives. Since the Rapid scenario is approximately eight times greater in terms of passengers than the Base model, average expenses for the three airports utilized for this scenario (Rochester, Grand Forks, and Duluth) are applicable for STC beginning in FY2016. While complexities exist in terms of benchmarking peer facilities, in 2012 Duluth and Grand Forks reported dedicating $78,724 and $220,012 respectively for marketing initiatives. These data were obtained from annual reports both filed with the FAA. In addition, Grand Forks reported that in 2012 it incurred $507,454 in ARFF expenses. These expenses are reported for both airports in the Rapid growth scenario developed for this report.

The following sections present potential cash flows for the Base, Moderate, and Rapid enplanement growth scenarios. Revenues and expenses are summarized for each based on the following categories:

Operating Revenues:

- Airline – Landing fees and Terminal Area Charges
- Airline Passenger Generated Revenues – Rental Car, Food & Beverage, Advertising, & Parking
- Non-Airline Revenue – FBO Revenue, Fuel Flowage Fees, Hangar Rents, State Grants, Misc.
- Local Revenues – City of St. Cloud

Application of Revenues:

- Salaries, Wages, & Benefits
- Communications & Utilities
- Supplies & Materials
- Contractual Services
- Insurance
- Other Operating Expenses

Assumptions and parameters for each scenario are also presented and discussed with the overall objective of each to produce net operating income (operating revenues less operating expenses) of $0 for each fiscal year.

8. Airport Cash Flow Analysis – Base Scenario

Enplanement/Air Service Assumptions

- STC served by Allegiant Air with service to Phoenix and Orlando
- FY2013 enplanements total 13,000
- FY2014 enplanements total 26,000 and grow 2% per year thereafter to 28,143 in FY2018
- No additional air service is realized in the market through FY2018

Revenue Assumptions

- STC Airline Incentive Program in effect through FY2015. Allegiant Air starts payment of its $200 per turn fee for Phoenix flights in FY2015. Allegiant Air starts payment of same per turn fee for its Orlando flights in FY2016
- FBO Revenues increase 10% in FY2016 based upon a new agreement and grow 2% per year thereafter
- Airport Fuel Flowage Fee increased to 10 cents per gallon in FY2014
- Additional land rent associated with hangar construction is realized in FY2014 and grows 2% per year thereafter
- Given limited inbound passenger traffic from Allegiant service, no appreciable rental car revenue is envisioned
- City tax revenue remains relatively constant throughout the period due to increases in aeronautical revenue growing 1% each year from $475,200 in FY2014 to $495,238 in FY2018

Application of Revenue Assumptions

- All categories of expenditures continue to track consistent with historical trends experienced for the period FY2010-14 as follows:
  - Salaries, Wages, & Benefits 2% per year
  - Communications & Utilities 4% per year
  - Supplies & Materials 6% per year
  - Contractual Services 2% per year
  - Insurance 4% per year
  - Other Operating Expenses 2% per year
- The City continues to absorb all costs of ARFF services and does not charge STC
- GSDC funds air service development and marketing initiatives
- Total Operating Expenses increase 3% each year from $802,050 in FY2014 to $900,781 in FY2018

Summary

- Airport operations are in a breakeven position throughout the short-term planning period
- Airline cost per enplaned passenger remains less than $1.00 throughout planning period

BASE MODEL -- Ultra-Low Cost Carrier Service
AIRPORT APPLICATION OF REVENUES
St. Cloud Regional Airport
(For Fiscal Years Ending December 31)

		Actual	Budget	Forecast				
		FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**CAGR**
REVENUES								
Airline Revenues								
Landing Fees		$ 1,454	$ -	$ 12,550	$ 25,100	$ 25,602	$ 26,114	28%
Terminal Area		-	-	-	-	-	-	
Total Airline Revenues	[A]	$ 1,454	$ -	$ 12,550	$ 25,100	$ 25,602	$ 26,114	28%
Airline Passenger Generated Revenues								
Rental Car		$ -	$ -	$ -	$ -	$ -	$ -	15%
Food & Beverage		175	300	300	300	300	300	0%
Advertising		-	-	-	-	-	-	2%
Parking		-	-	-	-	-	-	
Total Airline Passenger Revenues	[B]	$ 175	$ 300	$ 300	$ 300	$ 300	$ 300	0%
Nonairline revenues	[C]	$ 298,186	$ 353,500	$ 359,110	$ 366,756	$ 372,866	$ 379,129	2%
Local Revenues -- City of St. Cloud	[D]	$ 475,200	$ 475,200	$ 453,175	$ 457,083	$ 475,664	$ 495,238	1%
TOTAL REVENUES	[E=A+B+C+D]	**$ 775,015**	**$ 829,000**	**$ 825,135**	**$ 849,239**	**$ 874,432**	**$ 900,781**	
Enplaned passengers	[F]	13,000	26,000	26,520	27,050	27,591	28,143	2%
Total cost per enplaned passenger	[F=A/E]	**$ 0.11**	**$ -**	**$ 0.47**	**$ 0.93**	**$ 0.93**	**$ 0.93**	
APPLICATION OF REVENUES								
Salaries, Wages, & Benefits		$ 366,485	$ 416,850	$ 425,524	$ 434,439	$ 443,610	$ 453,047	2%
Communication & Utilities		142,562	143,600	149,498	155,693	162,202	169,043	4%
Supplies & Materials		92,888	96,300	101,399	106,880	112,776	119,121	6%
Contractual Services		125,286	96,200	98,177	100,204	102,283	104,414	2%
Insurance		29,938	27,000	28,080	29,203	30,371	31,586	4%
Other Operating Expenses		17,639	22,100	22,457	22,821	23,191	23,568	2%
TOTAL EXPENSES		**$ 774,798**	**$ 802,050**	**$ 825,135**	**$ 849,240**	**$ 874,432**	**$ 900,781**	3%
OPERATING SURPLUS (DEFICIT)		**$ 217**	**$ 26,950**	**$ -**	**$ -**	**$ -**	**$ -**	

Source: City of St. Cloud Aviation Department, Delta Airport Consultants, Inc. projections.
Prepared by: Delta Airport Consultants Inc., October 2013.

9. Airport Cash Flow Analysis – Moderate Scenario

Enplanement/Air Service Assumptions

- STC served by Allegiant Air with service to Phoenix and Orlando
- STC served by a Network carrier to Chicago hub starting in July 2014
- FY2013 enplanements total 13,000
- FY2015 enplanements total 46,000
- FY2016 enplanements total 66,438 and grow 2% per year thereafter to 69,122 in FY2018

Revenue Assumptions

- STC Airline Incentive Program in effect through June FY2016. Allegiant Air starts payment of its $200 per turn fee for Phoenix flights in FY2015. Allegiant Air starts payment of same per turn fee for its Orlando flights in FY2016. Chicago carrier commences payment of fees in July 2016
- FBO Revenues increase 10% in FY2016 based upon a new agreement and grow 2% per year thereafter
- Airport Fuel Flowage Fee increased to 10 cents per gallon in FY2014
- Additional land rent associated with hangar construction is realized in FY2014 and grows 2% per year thereafter
- Because of scheduled daily service and corresponding increase in the number of inbound travelers, rental car concession revenue is generated beginning in FY2015 at a rate of $2.31 per passenger consistent with peer results (see Appendix A); revenue increases 2% each year thereafter
- City continues to not charge for automobile parking; however is foregoing $2.45 per enplaned passenger on average based on data found in Appendix A
- City tax revenue decreases due to new airline and passenger related revenue from $475,200 in FY2014 to $319,528 in FY2018; STC is closer to achieving financial self-sufficiency

Application of Revenue Assumptions

- With the exception of Salaries, Wages, & Benefits; all categories of expenditures continue to track consistent with historical trends experienced for the period FY2010-14 as follows:
  - Communications & Utilities 4% per year
  - Supplies & Materials 6% per year
  - Contractual Services 2% per year
  - Insurance 4% per year
  - Other Operating Expenses 2% per year
- The City continues to absorb all costs of ARFF services and does not charge STC
- GSDC funds air service development and marketing initiatives
- Due to growth in operations and consistent with peer group, 4 additional maintenance/operations personnel are hired (2 in FY2015 and 2 in FY2016) at $40,000/position; temporary labor is eliminated
- Total Operating Expenses increase 7% each year from $802,050 in FY2014 to $1,042,016 in FY2018

Summary

- Airport operations are in a breakeven position throughout the short-term planning period
- Airline cost per enplaned passenger is $2.59 in FY2018; well below peers

MODERATE MODEL -- Ultra-Low Cost Carrier Service & Network Carrier
AIRPORT APPLICATION OF REVENUES
St. Cloud Regional Airport
(For Fiscal Years Ending December 31)

		Actual	Budget	Forecast				
		FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**CAGR**
REVENUES								
Airline Revenues								
Landing Fees		$ 1,454	$ -	$ 12,550	$ 80,055	$ 135,009	$ 135,009	121%
Terminal Area		-	-	-	20,800	42,848	44,133	46%
Total Airline Revenues	[A]	$ 1,454	$ -	$ 12,550	$ 100,855	$ 177,857	$ 179,143	143%
Airline Passenger Generated Revenues								
Rental Car		$ -	$ -	$ 106,260	$ 153,472	$ 156,541	$ 159,672	15%
Food & Beverage		175	300	300	300	300	300	0%
Advertising		-	-	4,000	4,080	4,162	4,245	2%
Parking		-	-	-	-	-	-	
Total Airline Passenger Revenues	[B]	$ 175	$ 300	$ 110,560	$ 157,852	$ 161,003	$ 164,217	14%
Nonairline revenues	[C]	$ 298,186	$ 353,500	$ 359,110	$ 366,756	$ 372,866	$ 379,129	2%
Local Revenues -- City of St. Cloud	[D]	$ 475,200	$ 475,200	$ 398,135	$ 360,131	$ 301,598	$ 319,528	
TOTAL REVENUES	[E=A+B+C+D]	**$ 775,015**	**$ 829,000**	**$ 880,355**	**$ 985,594**	**$ 1,013,324**	**$ 1,042,016**	
Enplaned passengers	[E]	13,000	26,000	46,000	66,438	67,767	69,122	27.7%
Total cost per enplaned passenger	[F=A/E]	**$ 0.11**	**$ -**	**$ 0.27**	**$ 1.52**	**$ 2.62**	**$ 2.59**	
APPLICATION OF REVENUES								
Salaries, Wages, & Benefits		$ 366,485	$ 416,850	$ 480,187	$ 569,791	$ 581,187	$ 592,810	2%
Communication & Utilities		142,562	143,600	149,344	155,318	161,530	167,992	4%
Supplies & Materials		92,888	96,300	102,078	108,203	114,695	121,577	6%
Contractual Services		125,286	96,200	98,124	100,086	102,088	104,130	2%
Insurance		29,938	27,000	28,080	29,203	30,371	31,586	4%
Other Operating Expenses		17,639	22,100	22,542	22,993	23,453	23,922	2%
TOTAL EXPENSES		**$ 774,798**	**$ 802,050**	**$ 880,355**	**$ 985,594**	**$ 1,013,324**	**$ 1,042,016**	7%
OPERATING SURPLUS (DEFICIT)		**$ 217**	**$ 26,950**	**$0**	**$0**	**$0**	**$0**	

Source: City of St. Cloud Aviation Department, Delta Airport Consultants, Inc. projections.
Prepared by: Delta Airport Consultants Inc., February 2014.

10. Airport Cash Flow Analysis – Rapid Scenario

Enplanement/Air Service Assumptions

- STC served by Allegiant Air with service to three or more markets
- STC served by 2 or more Network carriers consistent with peer markets (**Table 1.1**)
- FY2013 enplanements total 13,000
- FY2015 enplanements total 46,000
- FY2016 enplanements total 141,549 and grow 2% per year thereafter to 147,268 in FY2018

Revenue Assumptions

- STC Airline Incentive Program in effect through June FY2016. Allegiant Air starts payment of its $200 per turn fee for Phoenix flights in FY2015. Allegiant Air starts payment of same per turn fee for its Orlando flights in FY2016. Chicago carrier commences payment of fees in July 2016
- FY2015 Airline and Passenger-related revenues are consistent with the Moderate Scenario
- FY2016 Airline and Passenger-related revenues are the average for the peer airports (Rochester, Grand Forks, and Duluth) for 2012 (**Table 1.2**); growth is 2% per year thereafter
- City continues to offer free parking to patrons throughout planning period
- FBO Revenues increase 10% in FY2016 based upon new agreement and grow 2% per year
- Airport Fuel Flowage Fee increased to 10 cents per gallon in FY2014
- Additional land rent associated with hangar construction is realized in FY2014 and grows 2% per year thereafter
- City tax revenue required to breakeven in FY2016 is $1.44 million and grows to $1.54 million in FY2018

Application of Revenue Assumptions

- FY2015 Operating Expenses are consistent with the Moderate Scenario
- FY2016 Operating Expenses are the average for the peer airports (Rochester, Grand Forks, and Duluth) for 2012 (**Table 1.2**); growth factor for the period FY2016-18 reflects historical actual growth for expenditure categories including a staff of 23 FTEs (**Table 1.1**)
- Because of increased airline flight activity, it is necessary to provide ARFF services on-airport expensed through STC's operating budget
- Air service development and marketing initiatives continue to be coordinated with GSDC; however, STC begins to fund these activities

Summary

- Cost structure and corresponding demand on City tax revenues are not sustainable
- This scenario requires construction of expanded or new air carrier terminal and associated infrastructure to accommodate volume of traffic. New facility will increase leased space for rental cars, airlines and terminal concessions; however, new debt will need to be issued and paid for through airport activities
- Institution of paid parking is critical to this scenario; based on an average per passenger amount for peer airports in the Rapid scenario (See Appendix A), STC could generate $4.73/passenger through this revenue stream
- Airline cost per enplaned passenger remains below $6.00; consistent with industry trends

RAPID MODEL
AIRPORT APPLICATION OF REVENUES
St. Cloud Regional Airport
(For Fiscal Years Ending December 31)

		Actual	Budget	Forecast				
		FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**CAGR**
REVENUES								
Airline Revenues								
Landing Fees		$ 1,454	$ -	$ 12,550	$ 282,900	$ 288,558	$ 294,329	2%
Terminal Area		-	-	-	561,574	572,805	584,262	2%
Total Airline Revenues	[A]	$ 1,454	$ -	$ 12,550	$ 844,474	$ 861,363	$ 878,591	2%
Airline Passenger Generated Revenues								
Rental Car		$ -	$ -	$ 106,260	$ 356,937	$ 364,076	$ 371,357	2%
Food & Beverage		175	300	300	39,277	40,063	40,864	2%
Advertising		-	-	4,000	8,000	8,160	8,323	2%
Parking		-	-	-	-	-	-	
Total Airline Passenger Revenues	[B]	$ 175	$ 300	$ 110,560	$ 404,214	$ 412,298	$ 420,544	2%
Nonairline revenues	[C]	$ 298,186	$ 353,500	$ 359,110	$ 366,756	$ 372,866	$ 379,129	2%
Local Revenues -- City of St. Cloud	[D]	$ 475,200	$ 475,200	$ 358,135	$ -	$ -	$ -	
				-				
TOTAL REVENUES	[E=A+B+C+D]	**$ 775,015**	**$ 829,000**	**$ 840,355**	**$ 1,615,444**	**$ 1,646,528**	**$ 1,678,264**	2%
Enplaned passengers	[F]	13,000	26,000	46,000	141,549	144,380	147,268	54.3%
Total cost per enplaned passenger	[F=A/E]	**$ 0.11**	**$ -**	**$ 0.27**	**$ 5.97**	**$ 5.97**	**$ 5.97**	
				-				
				-				
APPLICATION OF REVENUES								
Salaries, Wages, & Benefits		$ 366,485	$ 416,850	$ 440,187	$ 1,634,492	$ 1,667,182	$ 1,700,525	2%
Communication & Utilities		142,562	143,600	28	398,083	414,006	430,567	4%
Supplies & Materials		92,888	96,300	102,078	229,927	243,723	258,346	6%
Contractual Services		125,286	96,200	98,124	441,315	450,141	459,144	2%
Insurance		29,938	27,000	28,080	131,947	137,225	142,714	4%
Other Operating Expenses		17,639	22,100	22,542	217,954	222,313	226,759	2%
TOTAL EXPENSES		**$ 774,798**	**$ 802,050**	840,355	**$ 3,053,718**	**$ 3,134,590**	**$ 3,218,055**	3%
OPERATING SURPLUS (DEFICIT)		**$ 217**	**$ 26,950**	**$ -**	**$ (1,438,274)**	**$ (1,488,062)**	**$ (1,539,792)**	

Source: City of St. Cloud Aviation Department, Delta Airport Consultants, Inc. projections.
Prepared by: Delta Airport Consultants Inc., October 2013.

11. Air Service Development & Marketing Initiatives

The ongoing and consistent implementation of broad-based, strategically-focused airport and air service marketing plans is an essential function of high-performing airport operators. As stressed in the Airport Cooperative Research Program (ACRP) Report 28 – *Marketing Guidebook for Small Airports* (Transportation Research Board of the National Academies, Washington, DC 2010), "airports today must market effectively to attract activity and achieve financial self-sufficiency."

The greater St. Cloud region has witnessed first-hand the positive outcomes and returns a proactive and all-encompassing marketing program can have on attracting airline service, spurring airport activity, and producing positive results. As noted earlier in this analysis, the GSDC and STC have worked collaboratively to rally business and community leaders to attract new airline service and promote/advertise this service in the market through traditional (billboard, radio, print, and media events) and non-traditional (on-line advertising, social media, travel agent promotions, and developing key partnerships with travel/tourism entities) to achieve these outcomes.

Given the momentum and positive community awareness that has been generated as the result of these marketing plans, it is recommended that STC commit to continuing to market/promote its services to not only its defined catchment area but, to key destination markets to spur in-bound travel activity to the region. As STC activity continues to grow, the City should evaluate in conjunction with GSDC opportunities for transitioning the funding of marketing efforts through the Airport's annual operating budget. When STC achieves the Rapid Growth level of activity, it is plausible that the Airport could invest between approximately $87,000 - $200,000 each year to marketing and promotion activities similar to Duluth and Grand Forks.

Regardless of the sources of funding for airport marketing efforts, it is vital that the level of cooperation and collaboration which exists in the greater St. Cloud region continue in order to maximize awareness, community buy-in/support for the airport, and continue to lay the foundation for generating positive results for the local economic base, citizens, and visitors to the area.

12. Summary & Recommendations

This analysis presents a financial overview of STC and gauges the impact to both revenues and expenses from City's the ongoing operation and development of the Airport based upon current and forecast air carrier passenger service. The objective of this scope of work is to analyze STC's financial performance in the current year (FY2013) as well as its potential performance in FY2016-18 assuming attainment of the enplaned passenger levels in the Base, Moderate, and Growth forecast scenarios as presented in the draft master plan. To accomplish the development of five year financial outlooks for the three separate air service development scenarios, a peer group of air carrier airports with 2012 enplanements ranging from 15,630 to 161,452 was identified and key financial performance measures were obtained. To provide a baseline understanding of the Base growth scenario, historical STC financial data from the airport master plan were updated for the period FY2010-14(Budget). In addition, non-airline and non-passenger related revenue forecasts were developed and applied to each scenario.

The importance of re-establishment of commercial airline service at STC cannot be understated in terms of airport finances, community pride, and overall economic impacts to the greater St. Cloud region. In the Base forecast model, Allegiant's service will generate revenues for STC commencing in FY2015. This new revenue, coupled with the renewal of the Airport's FBO contract, increase in the fuel flowage rate, and completion of a new hangar facility enables the City's tax transfer to stabilize during the planning period. Attainment of daily service to Chicago also bolsters the Airport's financial position through additional landing fees and terminal building rents. Airline passenger activity in the Moderate scenario should foster rental car revenues as well. Collectively, the Moderate scenario generates the most positive financial outcomes in terms of forging a foundation for STC to be self-sufficient void of reliance on tax revenue transfers from the City and fulfilling its FAA grant assurances to set and collect airport rates and charges in order to make the Airport as self-sufficient as possible. If attained, the Moderate scenario would require the City to transfer tax revenues at a level consistent with 2005-06 levels. The Rapid scenario could prove to overwhelm the City in terms of the timing and lack of terminal and landside amenities to support the volume of passenger traffic associated with this level of activity. Given the rapid rise in passengers associated with this model; a 992% increase (13,000-142,000) in 3 years, it is highly unlikely that this scenario is attainable. Nonetheless, the data provided for these airports offer insight to the potential cost structure STC could encounter as its enplanements reach this level and enable the City to effectively program facility enhancements to meet the demand for services associated with this volume.

It is recommended that the City continue to work in concert with the GSDC and the region to market and promote services at STC in a proactive and aggressive manner. As activity increases, the City should evaluate the feasibility of funding some or all of the costs linked to this essential function. In addition, the City should closely examine converting its non-revenue producing automobile parking areas to a paid structure. Of the nine airports examined as part of this study, only one (Brainerd) does not charge for parking. Parking Revenue collected per enplaned passenger for Base scenario airports averages $3.66 while the average for Moderate airports is $2.45. Assuming that in FY2013 STC enplanements total 13,000, the City is currently foregoing $31,850 - $47,580 from its automobile parking activities. Of course, this revenue would be offset by operating and capital costs; however, all net revenue collected from automobile parking contributes toward reducing City tax revenue transfers for airport operations and leads to financial self-sufficiency. Given that Allegiant Air attracts passengers throughout the STC passenger catchment area, the cost of parking is not borne exclusively by City residents.

APPENDIX A
PEER AIRPORT FINANCIAL MEASURES

STC – BUSINESS AND FINANCIAL PLAN

APPENDIX A FINANCIAL MEASURES

SCENARIO	BASE				MODERATE				RAPID			
	EAU	**RHI**	**BRD**	**AVG**	**LSE**	**YKM**	**GRI**	**AVG**	**RST**	**GFK**	**DLH**	**AVG**
Airport:	EAUCLARE	RHINELANDER	BRAINERD		LA CROSSE	YAKIMA	Cen. Neb		ROCHESTER	GRAND FORKS	DULUTH	
FINANCIAL MEASURES												
Airline revenue:												
Airline revenue per enplanement	$7.52	$10.76	$5.95	***$8.08***	$11.33	$4.98	$1.16	***$5.82***	$6.31	$7.45	$5.20	***$6.32***
Signatory landing fee (per 1,000 lbs)	$1.17	$1.75	$0.74	***$1.22***	$3.78	$1.29	$0.72	***$1.93***	$2.04	$1.13	$1.59	***$1.93***
Passenger related revenue per enplanement:												
Gift shop	$0.00	$0.00	$0.00	***$0.00***	$0.00	$0.00	$0.00	***$0.00***	$0.00	$0.00	$0.04	***$0.01***
Parking	$5.61	$5.37	$0.00	***$3.66***	$4.30	$2.80	$0.25	***$2.45***	$3.82	$5.12	$5.25	***$4.73***
Rental car	$4.20	$2.71	$0.00	***$2.31***	$4.36	$1.65	$0.93	***$2.31***	$2.69	$2.44	$2.79	***$2.64***
Restaurant/catering	$1.41	$0.00	$0.74	***$0.72***	$0.18	$0.14	$0.00	***$0.10***	$0.15	$0.37	$0.03	***$0.18***
Terminal services	$11.22	$8.08	$0.74	***$6.68***	$8.84	$4.59	$1.18	***$4.87***	$6.66	$7.93	$8.12	***$7.57***

Source: FAA:AAS-400, Airport Operating and Financial Summaries, FAA Form 5100-127 (Form 127); Delta Airport Consultants, Inc. Analysis
Prepared by: Delta Airport Consultants Inc., October 2013.

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