March 2, 2015

Memorandum to: Councilwoman Kathee Burke-Gonzalez

From: Airport Planning Committee, Noise Sub-committee

Re: Thirteenth Findings and Recommendations – Financial Impacts of Proposed Noise Control Measures

The BFAC airport finance sub-committee was asked by the Board to consider whether and under what circumstances the airport could sustain a capital expenditure budget of $7 million over five years and a litigation budget of $3 million -- $1 million per year for the next three years, assuming that the Board were to adopt the airport access restrictions that it noticed for hearing on March 5.

The BFAC committee is unable to reach consensus and thus unable to respond to the Board's request. Although the BFAC committee had previously advised the Board, unanimously, that the airport could sustain financially even the complete elimination of helicopter operations, which would not be the consequence of the proposed rules, some aviation members of the committee now believe that the proposed rules so profoundly change the business of the airport that neither financial forecasts, nor even *pro forma* financial projections based on the impact of the rules on the current traffic level, is now possible. Hence, the BFAC committee is unable to provide updated forecasts or projections in response to the Board's request.

We do not agree. To the contrary, we believe the critical financial facts of the matter remain clear. We wish to bring them to the Board's attention.

The attached spreadsheet is derived directly from the last financial projection provided by the BFAC committee to the Board, with certain changes:

1. It assumes both the $7 million capital budget and $3 million litigation budget given by the Board, rather than the smaller capital budget and absence of any litigation budget in the BFAC committee's last presentation. It is therefore much more conservative than the last BFAC presentation and directly responsive to the Board's inquiry to that committee.

2. It assumes that airport revenues in the ordinary course grow at the same 3% annual rate that the BFAC assumed for expenses, with specific exceptions that remain identical to the BFAC sub-committee's assumptions.

3. It assumes a financing convention for capital expenditures of mid-year expenditure financed with six months of BANs at a 3% interest rate (higher than the present rate being paid by the Town for newly issued BANs), refinanced with 15-year, mortgage-amortizing bonds at a 3% interest rate (8.4% debt service per year). The latter interest rate is also higher than that currently being paid by the Town on new bonds. While we understand that 15 years is the maximum for which the Town normally bonds, airport capital structures, including pavements, have generally remained in service in excess of 20 years.

Runway 4-22 remained in service 10 years past its scheduled retirement. The present surface of the main runway dates to 1998 and it is not expected to require repaving until some time beyond 2018.

The attached spreadsheet makes clear that, if the airport maintains its current level of income and normal growth thereof, it can pay for the $7 million of budgeted capital expenditures, the $3 million of budgeted litigation expense, maintain its current level of surplus as of the end of the five-year period, and have free cash flow, after giving full effect to the debt service on the $7 million of bond financing, sufficient to finance the reconstruction of the main runway currently estimated to cost in the neighborhood of $5 million.

Based on *pro forma* analysis of the rules applied to 2014 landing operations, which we undertook on an operation-by-operation basis using the schedule of all 13,000 landings in 2014, the imposition of the proposed rules would result in a significant decline in airport earned income, approximately 43%. To maintain its current level of net income, the earned income decline would have to be compensated by some combination of landing fee increases, other revenues, such as paid parking and new airport leases, and expense savings. If the necessary replacement of income were to come entirely from user fees, the 43% reduction implies a 75% one-time fee increase.

In its previous reports, the BFAC sub-committee forecast additional revenues from paid parking and leases of vacant lots on Industrial Road of $1.5

million over the five-year period. If these revenues were realized, the necessary one-time fee increase needed would be less than 50%.

While this committee recommended maintaining the seasonal air traffic control tower for the 2015 season, we also think it highly likely that, if the proposed rules were adopted, the tower would no longer be needed. The safety justification for the tower is to manage conflicts between traffic patterns for helicopters and fixed-wing aircraft, something experienced by few if any other general aviation airports in the country, most of which have little helicopter traffic. If the proposed rules are adopted, summer helicopter traffic will be reduced by more than 80%, to approximately the winter level. As or more important, however, the remaining helicopter traffic would be limited to the period from noon Monday to noon Thursday, when fixed-wing traffic is light.

If there is currently no need for a tower in the winter, it is difficult to imagine why one would possibly be needed in the summer were the proposed rules in effect. Without helicopters, East Hampton's level of operations, even on a seasonally adjusted basis, is much smaller than that of airports with control towers, and some in New York State without control towers are much larger.

If the other revenues were realized and the tower were eliminated, the one-time fee increase needed to replace revenues lost due to the proposed rules would be approximately 10%.

However, it is also likely that the static analysis of the impact of the proposed rules on operations overstates the revenue loss. Some of the airport users will modify their behavior, coming and going earlier or later to avoid the curfews, rotating the fleet in the case of fleet operators to avoid the one-per-week rule, and/or substituting aircraft not classified as "Noisy" by the proposed rules.

We have analyzed a wide variety of combinations of possible additional revenues and expense savings. Our analysis shows that the prudent level of one-time landing fee increase, to go into effect contemporaneously with the proposed restrictions should they be adopted, would be 50%. Thereafter, annual increases needed through 2019 would be in the range of 0% to 9% (and reductions are possible), depending on the extent of realization of other revenues and expense savings.

In the case of small aircraft, a 50% one-time fee increase would result in a landing fee, currently $11, of $16.50. In the case of the largest aircraft currently using the airport, such as the Gulfstream V, this would result in a landing fee, currently $660, of $1,000. The hourly operating cost of a Cessna 182 is between $115 and $200. A 50% increase in the landing fee therefore represents the cost equivalent of approximately three minutes of additional flying time for a Cessna 182. The operating cost of a Gulfstream V is on the order of $7,500 per hour. A 50% increase in the landing fee therefore likewise represents the cost equivalent of approximately three of additional flying time for a Gulfstream V. We believe this relationship, that the prudent increase is equivalent to the cost of approximately three minutes of flying time, holds across all aircraft types using East Hampton Airport. We think it unlikely that the additional three minutes of cost would have any impact at all on airport traffic.

We also remind the Board that locally based aircraft do not pay landing fees and would be unaffected by any increase.

In its previous findings, the BFAC sub-committee advised the Board that the airport, even assuming the complete exclusion of helicopter traffic which is not the case under the proposed rules, can be self-sustaining financially entirely from airport revenues, without need of either FAA airport improvement grants or any support from East Hampton taxpayers. The present analysis makes clear that the airport will in fact be self-sustaining if the proposed rules are adopted, provided that the Board makes prudent provision for airport fee increases that are quite clearly well within the means of airport users. The landing fee for a light aircraft will still be much smaller than the cost of parking at Main Beach. Three minutes of additional cost is a trivial thing to ask of airport users so that residents can once again enjoy the peace and quiet of their own homes and gardens.

Respectfully submitted,

Airport Planning Committee,
Noise Sub-committee

	A	B	C	D	E	F	G	H	I
1		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Totals**	**Rates**
2									
3	Landing fees	1,735	1,787	1,841	1,896	1,953	2,011	11,223	3.0%
4	Collection Losses	(58)	(60)	(62)	(63)	(65)	(67)	(375)	3.0%
5	Vector Collection Fees	(235)	(242)	(249)	(257)	(264)	(272)	(1,519)	3.0%
6	Net Landing Fees	1,442	1,485	1,530	1,576	1,623	1,672	9,329	3.0%
7	Fuel Fees ($.30)	221	221	228	234	241	249	1,394	3.0%
8	Fuel Fee Incr ($.05)		37	38	39	40	41	196	
9	Sub-Total User Fees	1,663	1,743	1,796	1,849	1,905	1,962	10,919	3.0%
10	Rent	605	625	646	667	689	712	3,943	3.3%
11	Other	53	55	56	58	60	61	343	3.0%
12	Total Revenues	2,321	2,423	2,497	2,574	2,654	2,735	15,205	
13									
14	Expense	1,031	1,062	1,094	1,127	1,160	1,195	6,669	3.0%
15	Benefits	149	161	174	188	203	220	1,096	8.1%
16	Admin	178	183	189	195	200	206	1,151	3.0%
17	Total Oper Expense	1,358	1,406	1,457	1,509	1,564	1,622	8,916	
18									
19	**EBITDA**	**963**	**1,017**	**1,041**	**1,065**	**1,089**	**1,114**	**6,288**	
20									
21	New Debt Issued	720	2,000	2,000	1,500	780	0	7,000	
22	Capital Expenditures	(720)	(2,000)	(2,000)	(1,500)	(780)	0	(7,000)	
23	Old Debt Service	(172)	(132)	(79)	(79)	(79)	(70)	(611)	
24	New Debt Service		(90)	(258)	(419)	(534)	(588)	(1,890)	
25	Legal	(260)	(1,000)	(1,000)	(1,000)			(3,260)	
26									
27	**Tr to/(from) Surplus**	**531**	**(206)**	**(297)**	**(433)**	**476**	**456**	**527**	
28									
29	**End of Year Surplus**	**1,700**	**1,494**	**1,197**	**764**	**1,240**	**1,696**		