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

Executive Summary

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. We believe the critical financial facts of the matter remain clear and wish to bring them to the Board's attention.

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. This is incontrovertible as it is merely arithmetic.

Based on *pro forma* analysis of the rules applied to each of the 13,000 2014 landing operations, the imposition of the proposed rules would result in a decline in airport earned income of approximately 43%. However, the airport also has more than $600,000 of rental income, implying an overall 31% reduction in income.

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, this would imply a 75% one-time fee increase.

However, 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 landing fee increase needed would be less than 50%.

If these other revenues were realized and the seasonal air traffic control tower were eliminated -- as it will be unnecessary with the more than 80% decrease in helicopter traffic implied by the rules -- the one-time fee increase needed to replace revenues lost due to the proposed rules would be approximately 10%.

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.

A 50% increase in the landing fee represents the cost equivalent of approximately three minutes of additional flying time for a Cessna 182 or for the largest type now using the airport, the 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 thus 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 increased landing fee for a light aircraft would be a bit more than a ticket at East Hampton Cinema, but still less 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