

Appendix E - Airport Funding

Introduction

Airport funding is derived from many sources. This appendix discusses the various sources available to the airport sponsor. Funding sources can be categorized into three main categories:

- a. Federal funding
- b. State funding
- c. Local or Private funding

Federal Funding

Most funding for airport development comes from federal government programs. Currently the most predominant program is the Airport Improvement Program, commonly referred to AIP, managed by the Federal Aviation Administration. This section describes the program, the guidance and procedures for obtaining AIP grants, and the AIP funding history for the Black Hills Airport-Clyde Ice Field (SPF).

Federal Funding Legislation

The Federal Aviation Administration (FAA) is allowed to issue grants for airport planning and development in the United States under Public Law 49 United States Code (USC) § 47104(a). The FAA normally needs two separate legislative actions in order to be able to issue grants and operate the Airport Improvement Program (AIP) grant program: an authorization and an appropriation.

- a. **Authorization.** The authorization legislation has numerous titles but is often referred to as the FAA Reauthorization and may be passed by Congress for varying lengths of time. The authorization sets yearly limits on the AIP funding levels and gives the FAA contract authority to issue grants. The AIP is currently operating under the FAA Modernization and Reform Act of 2012 (Public Law 112-95), and this law has authorized \$3,350,000,000 for each of the fiscal years 2012 through 2015 for airport planning and airport development, airport noise compatibility planning and carrying out noise compatibility programs.
- b. **Appropriation.** Congress establishes an annual appropriation that allows the FAA to incur obligations and make payments for specific purposes. Although the FAA reauthorization typically establishes an annual authorized funding level for the AIP program, Congress may use the appropriation law to adjust the authorized AIP funding level for the current year.

Airport and Airway Trust Fund (Source of AIP)

It is important to note that AIP funds are not drawn from the government's General Fund, which consists primarily of tax payments from all sources. Instead, revenue for AIP is drawn from the Airport and Airway Trust Fund, commonly referred to as the Trust Fund. The Trust Fund is funded by a variety of revenue sources in the aviation industry, including a domestic ticket tax, a domestic

passenger flight segment fee, a departure tax for flights to Hawaii and Alaska, a passenger ticket tax at rural airports, international departure and arrival taxes, frequent flyer taxes, domestic freight and mail tax, a commercial aviation fuel tax and a general aviation fuel tax

Categories of AIP Funding

The authorization and appropriation legislation determine the amount of AIP funding available in a given period. Once that amount is established, a complex set of formulas and categories, defined by the FAA authorization law, determines how much funding is available in each airport category. In general, AIP funding is distributed as Entitlements, State Apportionment or Discretionary.

Entitlements

While most entitlement funds are distributed to airports based on airline passenger service these same AIP funds are used for general aviation airports as well. The entitlement funds for individual airports and fall into several categories.

Passenger Entitlements

These funds are available to airports with scheduled passenger service and enplaning more than 10,000 passengers per year. Passenger entitlements are calculated based on a regressive scale using passenger enplanements. The annual minimum is \$650,000 and the annual maximum is \$22 million per airport. By a special provision in the authorization, when \$3,200,000,000 or more AIP is appropriated in the fiscal year, the entitlement calculation increases and the annual minimum becomes \$1 million, and the maximum becomes \$26 million per airport.

Cargo Entitlements

Airports receiving cargo shipments may be eligible for cargo entitlements. The amount of entitlements are based on the distribution of 3.5 percent of the total AIP available for grants, divided on a pro-rata basis according to an airport's share of total US landed cargo weight.

Non-primary Entitlements

By a special provision in the authorization, when \$3,200,000,000 or more AIP is appropriated in the fiscal year, airports not receiving passenger entitlements will receive non-primary entitlements. These entitlements are the lesser of \$150,000 or 20 percent of an airport's 5-year development costs listed in the biennial National Plan of Integrated Airport Systems (NPIAS) report to Congress.

State Apportionment

These funds are available for eligible airport development projects within a state. Normally, 18.5 percent of the total AIP funds available for grants is apportioned for airports based on an area/population formula. When the amount of AIP funds available in a fiscal year are \$3,200,000,000 or more, 20 percent of the total AIP funds is allocated to non-primary entitlements with the remaining funds distributed by state based on an area/population formula. These funds are generally limited to commercial service non-primary and general aviation airports.

Discretionary

These are the remaining appropriated funds after the other types of funds have been established. A portion of the discretionary funds are directed toward specific, or "set-aside," programs, such as

noise-related projects or the Military Airport Program. Of the remaining discretionary funds, 75 percent are to be used for enhancing capacity, safety, security and noise compatibility planning and programs. The remaining 25 percent, known as pure discretionary funds, may be used for any eligible project at any airport, as determined by the FAA.

As a general rule, pure discretionary funds typically account for less than four percent of the available AIP funds. However, as the program proceeds throughout the fiscal year, some airport sponsors, who have decided not to proceed with an AIP project during the year, will choose to “waive” their entitlements for that year. Those funds are then converted to discretionary funds, creating an additional amount of discretionary funds to be used throughout the country for eligible projects.

Federal Share of Project Funding

Federal AIP funds typically do not cover the entire cost of an airport development project. First, the project costs must be eligible for federal funding under current legislation. Then, the costs must be allowable, i.e., reasonable and justified. Once costs have been determined to be allowable, the federal share of allowable costs is limited to a fixed percentage of the total costs. Although there are some exceptions, the current legislation limits the federal share of allowable AIP costs at 90 percent for most non-hub primary or smaller airports. The remaining 10 percent is considered the local share and is the sponsor’s responsibility.

Types of AIP Funding Available for Black Hills Airport (SPF)

By law, only public-use airports in the NPIAS are eligible for AIP funding. These airports are classified into various categories based on their usage and level of passenger enplanements, and those categories determine the type of funding eligibility for the airport. See **Appendix D Airport Classification** for more information. SPF is currently categorized as a Non-primary airport and is further identified in the Local group according to the FAA’s ASSET report. This provides a specific allocation of \$150,000 annually to the airport. This is a small amount which, using only the annual amount, is not sufficient for most projects. The money can be carried over for up to three years and combined for a four year total for a \$600,000 project.

In addition to Non-primary Entitlement, the most practical funding source for SPF will be state apportionment and discretionary funding. However, as stated earlier, the assignment of discretionary funds is determined by the FAA, and extensive coordination with the FAA is required to determine the availability of discretionary funding for specific projects. From 2010 through 2014, South Dakota airports received \$61.6 million in discretionary AIP funding, but there is no guarantee of future funding at that level. In-depth discussions with FAA representatives are necessary to determine the potential availability of discretionary funding for an AIP-funded project.

Federal Funding History for Black Hills Airport

Between 1949 and 2014, the airport has received over \$20 million in federal airport development funds under various programs. **Table E-1** gives a brief history of the grants for projects on Black Hills Airport - Clyde Ice Field.

Table E-1: Airport Improvement Program Funding

Airport Improvement Program Funding Black Hills Airport - Clyde Ice Field					
Project Number	Description of Development	State Funds	Local Funds	Federal Funds	Total Cost
9-39-016-701 (1949)	Grading and drainage of NW-SE landing strip and taxiway; constructing base course on NW-SE runway and taxiway; constructing bituminous surface treatment on taxiway and starter strips; and turfing	\$14,168	\$14,168	\$32,069	\$60,405
9-39-016-102 (1952)	Salvaging and erection of surplus beacon tower and the installation of a rotating beacon with necessary power and control equipment	\$420	\$420	\$950	\$1,790
9-39-0065-01 (1958)	Acquire easements (Tracts C through K, X and Z); resurface NW-SE runway (approx.. 4,500' x 150') and connecting taxiway; drain; turf	\$8,955	\$8,955	\$20,124	\$38,034
5-46-0065-01-81 (1981)	Acquire land for Airport Development: (Area 2), Clear zone and transition area protection (Areas 3, 4, 5 and 6)	\$3,192	\$3,192	\$57,472	\$63,857
3-46-0065-02 (1982)	Relocate portion of False Bottom Creek (approx.. 2100 lf); Grade for future 1450' extension of Runway 12/30 and turnaround; Fencing (approx. 8600 lf)	\$12,910	\$13,369	\$232,385	\$258,665
3-46-0065-02 (1984)	Extend Mark 12/30 (75' x 1450'); Bank protection False Bottom Creek; Grade additional GA area; Hgr Area txwys; Access road; Fencing in GA area	\$22,784	\$22,784	\$410,112	\$455,680
GA-0065-87 (1987)	Rehabilitate Rwy, Apron, Taxiways	\$25,000	\$21,500	\$0	\$46,500
3-46-0065-03 (1990)	Rehab NW-SE Rwy, Apron Txy; Rehab Hgr area Txys; Enlarge Apron	\$15,431	\$17,516	\$277,766	\$310,714
3-46-0065-04 (1995)	Acquire AWOS III	\$3,314	\$3,314	\$59,653	\$66,282
3-46-0065-05 (1995)	Rehabilitate Rwy, Apron & Txys; Marking; MIRL; Signage	\$41,722	\$41,722	\$750,996	\$834,440
3-46-0065-06 (1998)	Airport Master Plan	\$5,944	\$5,944	\$106,992	\$118,880
3-46-0065-07 (1999)	Construct General Aviation Apron; Marking (76,050)	\$4,073	\$4,073	\$73,314	\$81,460
3-46-0065-08-2000	Benefit Cost Analysis	\$2,487	\$2,487	\$44,779	\$49,755
3-46-0065-09-2001	Construct new taxiways; Rehabilitate selective apron areas (Non Fed Eligible Apron Areas)	\$11,500	\$11,500	\$197,361	\$220,361
3-46-0065-10-2002	Conduct Phase I and II Environmental Assessment for new B-II>12,500 lb Runway	\$6,658	\$9,988	\$149,822	\$166,469
3-46-0065-11-2003	Phase III Environmental Assessment for new B-II>12,500 lb Runway	\$6,160	\$9,240	\$112,751	\$128,151
3-46-0065-12-2005	Legal Survey and Development of plats for future airport improvements; design engineering for future airport improvement	\$3,790	\$5,685	\$180,036	\$189,512
3-46-0065-13-2007	Acquire land for Rwy extension; Road relocation; Phase I (Dirt Work); Phase I Land	\$148,801	\$223,201	\$7,068,054	\$7,440,056
3-46-0065-14-2008	Phase II New Runway (paving); (lighting)	\$42,273	\$63,409	\$2,007,973	\$2,113,655
3-46-0065-15-2009	Environmental Documentation for Runway 13/31 parallel taxiway and associated improvements and an Airport Layout Plan update	\$2,315	\$3,474	\$110,000	\$115,790

3-46-0065-16-2010	Phase III Land and design engineering for parallel taxiway and wildlife fence	\$17,147	\$11,431	\$543,000	\$571,578
3-46-0065-17-2010	Construction activities and construction engineering services for Phase I of the Runway 13-31 Parallel taxiway to include installation of the False Bottom Creek drainage structure, Runway 13 end taxiway grading, hangar relocations, taxilane extension, fueling system, fuel farm site improvements and associated items	\$57,877	\$2,278,952	\$1,832,782	\$4,169,612
3-46-0065-18-2010	Construction activities and construction engineering services for Phase I of the Runway 13-31 Parallel taxiway to include Runway 13 end taxiway grading; apron relocation due to parallel taxiway impacts and associated items	\$63,157	\$42,105	\$2,000,000	\$2,105,263
3-46-0065-19-2011	Construction Engineering and Testing and Construct Parallel Taxiway - Phase 4	\$99,473	\$66,315	\$3,150,000	\$3,315,789
3-46-0065-20-2012	Reimburse for Land Acquisition	\$2,000	\$8,000	\$90,000	\$100,000
3-46-0065-21-2013	Construct parallel taxiway (phase 5 obstruction removal - fuel farm relocation)	\$13,611	\$13,611	\$244,999	\$272,222
3-46-0065-22-2014	Update Airport Layout Plan and associated Narrative Report, including AGIS	\$13,888	\$13,888	\$250,000	\$277,777
Totals		\$649,050	\$2,920,243	\$20,003,390	\$23,572,697

The Federal AIP Grant Process

Once AIP funding has been identified, the airport sponsor must go through an established process to receive the federal funds and apply them towards an airport development project. The following paragraphs summarize the various steps of the process. However, depending on the specific details of the planned project or the sponsor's status, additional steps may be required. The current version of FAA Order 5100.38 will contain a more detailed explanation of all requirements and processes. In addition, coordination with the Airports District Office (ADO) is strongly encouraged to ensure there is no confusion.

Basic Grant Steps

While there are numerous steps in the FAA AIP grant process, all AIP grants proceed through the same basic steps.



Pre-Grant Actions

Pre-grant actions include a number of actions that must be taken before an AIP-eligible project is ready to be considered for inclusion in a grant. The most critical action is the need for early and extensive coordination between the sponsor and the FAA. The majority of the sponsor's interface with the FAA is at the local level with the appropriate ADO.

Sponsors develop a Capital Improvement Plan (CIP), typically based on the airport's 20-year development plan. This CIP is submitted to the ADO, where it is reviewed to identify the projects

that meet all of the applicable requirements. The ADO enters those projects into an automated AIP system, which is then used to create a five-year NPIAS report, outlining the projects that are eligible for AIP funding. From that data, the FAA creates an Airports Capital Improvement Plan (ACIP) to identify the projects that may be funded with AIP over the next three years. Inclusion of a project in the ACIP represents the initial FAA concurrence with the project. However, it is important to note that inclusion of the project in the NPIAS or the ACIP is not a guarantee of funding, nor is the value of the project considered a final determination by the FAA.

The ADO will typically notify the sponsor of the favorable potential for receiving federal funding in the upcoming fiscal years. However, it is not a commitment nor a guarantee of funds; rather, it is simply a notice that funding for the project appears favorable and the sponsor should consider initiating those actions that require long lead times in order to avoid delays in the grant process. In addition, the sponsor must develop a realistic project schedule, setting realistic sponsor deadlines for key steps in the grant process and coordinate this schedule with the ADO. Depending on the project, there may be additional steps required, but the common key steps in the grant process schedule include:

- Submission of environmental review documents
- Selection of sponsor's engineer
- Completion of final plans and specifications
- Submission of an airspace study
- Submission of a construction safety phasing plan
- Completion of safety management system (SMS) coordination
- Submission of disadvantaged business enterprise (DBE) plan
- Completion of necessary land acquisition
- Notice of intent to use entitlement funds (as established in annual Federal Register Notices)
- Advertisement for bids
- Acceptance of grant offer
- Award of contract

In addition to completion of the schedule and coordination with the ADO, the ADO will take a number of actions, including verification of sponsor eligibility, verification that all project requirements will be met and verification the sponsor's Airport Layout Plan (ALP) is current. As required by the Department of Transportation (DOT) Office of Inspector General, the FAA, as an element of its risk-based oversight system, will also verify that a sponsor risk assessment has been completed, a risk level has been assigned, and the risk level is still current. The ADO will also review the sponsor's grant history, focusing on open grants, to ensure the sponsor can comply with the requirement to carry out and complete AIP-funded projects without unreasonable delay.

Grant Programming

Once the pre-grant actions have been completed, there are three major steps before the grant application can be processed:

- Grant Programming
- Congressional Notification
- Sponsor Notification

A grant is “programmed” when the ADO takes the action to create a proposed grant in the automated AIP system. These proposed grants are typically based on estimated costs, either from the sponsor’s CIP or as submitted by the sponsor. The grant is then reviewed at various levels with the FAA Office of Airports. If the grant is approved, it then enters into the congressional notification process.

After the FAA Office of Airports approves the grant, it is forwarded to the FAA’s Office of Government and Industry Affairs (AGI). After AGI reviews the grant, it is forwarded to the DOT Office of the Secretary (OST). OST will review the grant, a process that varies with the type and amount of funding as well as current legislative requirements, and notify the appropriate congressional office that the grant can be publicly announced. OST will notify FAA when this process is complete, but the FAA can share specific information about the grant only after the OST notification has been received.

After the congressional notification process is complete, the FAA posts the grant on the official FAA Office of Airports website. This is considered formal notification that the ADO has authority to issue the grant, but a sponsor is typically notified in writing through a Tentative Allocation letter.

Grant Application, Offer and Acceptance

After the sponsor has been notified that they will receive a grant, the following steps must be completed:

- Grant Application Package Submittal
- Grant Application Review
- Fund Reservation
- Grant Offer
- Grant Acceptance

Before the ADO can issue a grant, the sponsor must submit a complete and correct grant application. This application package must include an Application for Federal Assistance (Standard Form 424), an Application for Development Projects (FAA Form 5100-100 or equivalent) and other documentation (narratives, sketches, photographs, etc.) as requested by the ADO.

The ADO will then review the application package for accuracy and completeness, with the level of review depending on the complexity of the project, the amount of the grant, the size of the airport and past experience with the sponsor. After the ADO completes their review, they will coordinate with the FAA’s accounting service to officially reserve the grant funds.

The ADO then prepares a formal grant offer package. This package typically includes a grant cover letter, the actual grant agreement, special conditions, grant assurances, sponsor certifications and current FAA advisory circulars.

The grant cover letter highlights important grant information, such as when the grant document needs to be returned. The grant agreement, when fully signed and executed, is a binding agreement obligating the sponsor and the FAA to the terms and conditions of the agreement. Special conditions highlight extra steps the sponsor must take as part of accepting the grant offer and are included in the actual grant agreement. Grant assurances are a very important part of the

grant agreement, since these assurances are obligations that the sponsor agrees to when they accept an AIP grant and the assurances require the sponsor maintain and operate their facilities safely, efficiently and in accordance with specified conditions. Sponsor certifications are sponsor statements that they have met or will meet the specific requirements of certain elements of the process. Finally, the grant offer package contains a list of the current FAA Advisory Circulars (AC) that set out the applicable policies, standards and specifications that sponsors must follow in an AIP-funded project.

Grant Acceptance

If the sponsor agrees with the grant offer, they must take certain steps to finalize the offer. The grant agreement cannot be altered by the sponsor and must be signed by an authorized representative of the sponsor. The agreement must then be signed by the sponsor's attorney, confirming that the sponsor is legally able to enter into the contract with the US government. After the grant has been executed, a specified number of copies must be returned to the ADO. Until the ADO receives an original signed agreement and enters it into the FAA's system, no funds can be drawn from the grant allocation.

Grant Payments

Once the grant agreement has been fully executed and returned to the ADO, the sponsor may begin requesting payments from the FAA. It is important to note a number of requirements in the payment process.

- All grant payment requests must be processed through the currently approved DOT grant payment system.
- Payment requests must be submitted at least annually, unless more frequent submissions are requested by the ADO. The sponsor may submit payment requests more frequently as costs are incurred.
- Payment requests must be based on costs already paid by the sponsor. Advance payments must be approved by the ADO.
- The last 10 percent of the federal share of the grant must be withheld until the ADO receives the final grant closeout report.
- The sponsor must retain all of the documentation supporting the grant payment for the required time period and must make this information available on request.

Grant Amendments

Under certain circumstances, a grant agreement can be amended. Only the ADO can change a grant agreement and amendments are the process used to implement such changes. In general, a grant agreement can be changed (amended) with certain limitations for the following reasons:

- To increase or decrease the grant amount. Grants for planning projects cannot be increased. In addition, amendments to increase the grant are limited to a maximum of 15 percent.
- To clarify the project description.
- To add, delete or modify a project.

Coordinate with the ADO to determine requirements for grant amendments.

Grant Closeouts

After the project has been completed, the final step in the process is to complete all of the administrative actions to close out the grant. This step is particularly important to the sponsor, since the FAA is required to withhold the last 10 percent of the federal share of the grant amount until the closeout report has been submitted to the ADO. The basic steps of the process are:

- Physically complete all projects in the grant.
- Complete all grant administrative and financial requirements
- Complete the closeout process

A project is physically complete when all work funded by the grant has been satisfactorily completed in accordance with all specifications or requirements. Before the ADO can process the closeout, they must receive the appropriate documentation demonstrating that the grant project requirements have met, the sponsor has met all of the grant requirements and all project costs are properly documented.

After the ADO has received all required documentation and verified that all requirements have been met, they will prepare a FAA Final Project Report. The ADO will then send written notification to the sponsor of the final payment amount. After the final payment has been made, the ADO will coordinate with other FAA offices to close the grant. When all these actions have been completed, the ADO will notify the sponsor in writing that the grant is physically and financially complete and the grant is officially closed.

Post-Grant Actions

Once the FAA has officially closed the grant, the sponsor still has additional grant actions it must follow.

- The sponsor is required by law to retain all grant-related documentation for three years. If there is litigation, the sponsor must retain the documentation until the issue is resolved or three years, whichever is later.
- The grant assurances and special conditions remain as an obligation the sponsor must comply with. Most grant assurances and special conditions are in effect for 20 years after the grant was signed. Some assurances or special conditions are in effect for the life of the equipment or facility, while other obligations remain in effect for perpetuity.
- If a sponsor expends more than \$500,000 in federal funds (all federal funds, not just AIP) in a fiscal year, it must comply with the Office of Management and Budget (OMB) single audit requirements. Unless the sponsor is an independent airport authority, this requirement applies to the airport's governing organization, i.e., city, county, state, etc.
- If the sponsor desires to dispose of equipment or land acquired with AIP funds, it must have FAA approval.

NOTE: As stated before, the above discussions on the AIP grant process are a summary of current program guidance. It does not include all the details and program requirements available. A more detailed description of all of the elements of the AIP grant process can be found in the current version of FAA Order 5100.38, Airport Improvement Program Handbook. In addition, sponsors are strongly encouraged to consult their local ADO for the latest policy and guidance.

State Funding

State governments typically have a variety of funding programs available for airport development. The most predominant programs use of funds from a variety of sources, such as aviation fuel taxes or aircraft registration fees, to provide funding for a portion of an airport sponsor's local share of a federally-funded airport development project. This section describes the program and a history of the state funding for Black Hills Airport - Clyde Ice Field.

South Dakota State Aviation Funding

State funding for airport development is managed by the South Dakota Department of Transportation's Office of Aeronautics, under the direction of the South Dakota Aeronautics Commission. This funding, held in the South Dakota Aeronautics Fund, comes primarily from aviation fuel taxes and aircraft registration fees.

Airports may apply for funds to cover up to 50 percent of the local share for federal AIP-funded projects. Airports are also allocated a portion of the aviation fuel taxes collected from fuel sales on their airport and may request those funds for airport development projects. Contact the SDDOT Office of Aeronautics for application procedures and more information.

The funding history through state funds is included in **Exhibit E-1** with all of the federal funding.

Local Funding

While most funding for airport development is derived from federal or state sources, portions of most capital projects as well as the majority of airport operating expenses must be funded through local sources. Ideally, the airport generates sufficient revenue to meet those costs. However, for many smaller airports, airport expenses and funding requirements typically exceed available airport revenue and the airport must rely on other funding sources.

From a financial standpoint the airport must seek to be as 'self-sustaining' as possible. This is one of the grant obligations for using federal funds and regardless, is a prudent approach to take. General Aviation airports have a few primary sources of revenue. These revenues are based on either land, buildings, services/use fees or public funding sources.

Land

Airports, by their nature require large amounts of land. This land is primarily dedicated to airport functions and so far as its use does not hinder the function of the airport, the land can be used for revenue production. Airports lease land to individuals or companies to construct buildings at the airport to store and service aircraft. Airports also lease land for the construction of buildings and improvements that are not used for aviation purposes and these are known as non-aeronautical leases. For general aviation airports a common type of land lease is for agricultural purposes. Agricultural leases can be for crops, haying, livestock or a combination. The terms of all of these leases must comply with FAA grant assurances and can serve as an important element of the airports overall revenue.

Buildings

For airports to fully function, buildings such as terminals and hangars are needed at the airport to allow for the storage and servicing of aircraft. Buildings can be constructed initially through a land lease or using other airport revenue sources. For those buildings constructed through a land lease, it is important for the airport to consider the long term reversion of the property improvements to the ownership of the airport. The reason for this is that any property improvement has a certain amount of useful life. After that period of useful life has been fulfilled the airport must recognize that the land lease tenant has fully recovered the cost of the improvements. If the airport were to continue to allow the tenant to use the improvements at a land lease rate it would be granting the tenant a substantial financial benefit at a significant long term cost to the airport.

The issue of reversion is one that is not as complicated as it seems. To see this more clearly here are two storylines to better explain it. In the first, an airport allows a tenant to construct a hangar on land leased for 25¹ years, (25 years in this example allows for the full amortization of the improvements) and then the airport extends or executes a new lease after the initial 25 year period for another 10 years at substantially the same land lease rate. In the second storyline, the airport allows the same tenant to construct a hangar on land leased for 25 years and at the end of 25 years the tenant does not extend the lease and abandons the hangar for one reason or another. The airport then seeks a new tenant for the hangar and seeks someone to pay not only for the land that will be leased but adds to that the value of the improvements. This of course is a substantial increase in rental rate and if the new lease is for 10 years would recoup much more money than the first storyline that was presented. The issue of reversion is essentially the recognition that the initial land lease is only should function as a land lease until the value of the improvements are amortized. After that initial period unless other significant improvements are made to extend the useful life of the building then the airport should begin leasing the property as improved rather than vacant land.

The issue of reversion being covered, income from buildings can be a significant portion of an airport's revenue stream. To be as 'self-sustaining' as possible, airports can go a long way toward financial sufficiency if the airport maximizes the rental income from improvements made on the airport.

Services and Use Fees

Some airports provide services directly to aircraft owners such as fueling, ground handling, hangaring etc. For those airports that do, this service has a large cost but also large amounts of revenue if managed in a business-like manner. Even if an airport does not provide services directly to aircraft owners the airport can establish some usage based fees such as fuel flowage fees, tie downs fees, landing fees or others. These serve as a means to cover operating expenses and help diversify income beyond just leases so that the direct beneficiary, the aircraft owner is paying rather than just the tenant leasing land or improvements.

Public Funding

The sponsor of the airport, usually a city, county or special district often has the ability to raise

¹ South Dakota State Law restricts airport leases to no more than 25 years. SDLC 50-7-3.

revenues from the general public through various forms of taxation. Providing funding to the airport for operating or capital expenses requires the airport sponsor to weigh the different services it provides to the community including the airport and decide how much if any of this public revenue will be provided to the airport.

A specific type of public funding is bonded indebtedness which can be used for capital improvements. The bonded indebtedness can be any of the following:

- 1) **General obligation bonds** are backed by the creditworthiness and taxing power of the municipality operating the airport. They usually bear low interest rates because of their high degree of security. However, state laws may limit a municipality's overall debt, and competition from other community financing requirements may preclude their use for an airport project. Some states have an exemption from the debt limitation rule for general obligation bonds because they are used for a revenue producing enterprise.
- 2) **Revenue bonds** pledge the revenues of an airport sponsor to the repayment of debt service. These are the most common source of funding at larger commercial service airports. Revenue bonds are popular because they do not burden the taxpayer or affect the bonding capacity of the municipality. However, their use is limited to airports with a sufficient operating surplus to cover the debt service. Projected Net Revenues must exceed debt service requirements by at least 1.25 times and up to 2.0 times, depending on the strength of the bond issuer and the underlying assumptions with respect to the market risk for the bonds. Interest rates are dependent on the coverage ratio, but in any case will be higher than for general obligation bonds. Other factors that may affect the interest rates on revenue bonds are the strength of the local passenger market and the financial condition of the airlines serving the market.
- 3) **Special facility revenue bonds** are normally issued by the airport sponsor for the construction of a facility for a third party and backed by the revenues generated from that facility. This method of funding can be used for such facilities as maintenance hangars, airline reservation centers, terminal buildings, and air cargo terminals.
- 4) **Industrial development bonds** can be issued by states, local government, or an airport authority to fund the construction of an airport industrial park or other facilities that may attract business and increase non-aeronautical leasing revenues at the airport.

Black Hills Airport Funding for Capital Projects

The local funding for the Spearfish airport capital projects has typically come from local tax dollars from Lawrence County. In the future, if the airport's ownership is transferred to the City of Spearfish, this situation is expected to continue requiring local tax dollars from the City of Spearfish for the local share of capital projects.

The airport is able to cover some of the airports operating expenses from revenues such as land leases, building leases, fuel sales and other typical airport funding sources but there is often not enough revenue from these sources to also cover the local portion of capital projects. This is typical for an airport the size of Black Hills Airport.