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Memorandum

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Item 36

Date: March 30, 2006

To: Gerald R. Miller, City Manager

From: Christine F. Andersen, Director of Public Works

For: Mayor and Members of the City Council

Subject: Long Beach Airport - Financing of Proposed Terminal Improvements

The purpose of this communication is to review the Long Beach Airport Terminal Improvement Project development process, and related project-financing considerations.

BACKGROUND

A Draft Environmental Impact Report (DEIR) for the Long Beach Airport terminal was released on November 7, 2005 for public comment. The DEIR identified a range of potential Terminal improvements including a recommended maximum sizing of 102,850 square feet, and smaller project alternatives of 97,545 square feet and 79,725 square feet. A "no project" alternative of 56,320 square feet (the current Terminal size) was also analyzed. The proposed project also includes construction of a parking structure so that the Airport's parking needs can be met on-site.

On February 18, 2003, the City Council approved a "design-build" contract for the construction of the on-site parking structure. This contract is on hold pending certification of the DEIR. However, it does provide a basis for estimating current construction costs if the EIR is certified and a project is approved. The estimate for building the structure in 2003 was $32 million. Based on current construction estimates the cost is now as high as $50 million.

LOOKING AHEAD

As part of the CEQA process design consultants were asked to provide conceptual designs. If a Terminal project is approved, tenant airlines and the Transportation Security Administration (TSA) will be heavily engaged as part of the detailed design, costing and funding alternatives analysis.

If approved, the Terminal project design process will be challenging and unique due to:

1. The City's desire to maintain its historic Terminal as the focal point of any improvements.

2. The guidance to design improvements to accommodate the minimum allowable activity permitted by the Airport Noise Compatibility Ordinance.

3. The fact that improvements would need to be constructed, while on-going Terminal operations continue without undue interference.

TERMINAL IMPROVEMENT FINANCING CONCEPTS

Specific information relative to sources and uses of funds, and project cost forecasts must await project approval and input from project stakeholders including the TSA and the airlines. There are, however, some "givens" which would shape the finance options for any Terminal project.

For example:

- The City should not actively pursue financing options until the DEIR has been certified and a project has been approved.

- Airport Terminal improvements cannot directly or indirectly rely on General Fund revenue sources as financing options. Although the Long Beach Airport market has been proven, (and the regional airport supply/demand scenario supports the economic viability of Long Beach Airport), the airport did have a history in the 1990's of losing a significant amount of airline activity. As such, Terminal Improvement financing must have the ability to reflect some potential fluctuation in airline activity, while retaining Airport Enterprise Fund liquidity to ensure funding necessary for daily operations.

- The Long Beach Airport is unique in terms of its breadth of revenue sources. The Airport has a significantly greater percentage of revenue from lease income than most airports of its size. Also, over 90 percent of the Airport's aircraft operations are non-commercial.

- Typically in the airline industry, carriers will not pay "up front" for terminal improvements. Exceptions occur where a carrier is permitted to construct its own terminal under a long-term lease or a carrier has access to exclusive use gates. This scenario is not realistic in Long Beach given flight limits and the need to make terminal space available when a carrier is allocated slots under the Noise Compatibility Ordinance. The lack of liquidity in the airline industry at this time exacerbates this problem. However, at Long Beach Airport there is a successful model for "up front" airline investment. For example, JetBlue funded up front costs associated with construction of a temporary modular passenger holdroom and baggage claim device, which was subsequently repaid through off-sets against use fees. Although the application of this financial option was relatively limited in scope and magnitude, it could be pursued as part of a larger financing package for any approved project.

- The proposed 102,850-square foot project is small when compared to other airports handling a like number of passengers (see attachments). The relatively small scope of improvements combined with Long Beach Airport's diverse revenue sources should be looked upon favorably by potential investors.

Generic, categorical funding sources for Airport Terminal improvements potentially include the following:

- FAA Grant Funding – FAA entitlement grant funds may be used for certain common use non-revenue producing capital improvements. Discretionary grant funds would be limited except for certain specific improvements such as airline parking ramp construction.

- Passenger Facilities Charges (PFC) - The PFC currently is $3 per enplaned passenger, and may be increased to $4.50 within existing regulations. (Note-if traffic decreased, a given amount could still be received by collecting over a longer period). Use of PFCs is limited to the same uses as FAA entitlement funds (listed above). Funding for near term improvements is typically accomplished by use of Commercial Paper or other "bridge" financing sources pledged against future PFCs.

- Airline Use Fees - Current rates/charges at the Airport are approximately $4 per enplaned passenger to the airlines. This sum is relatively low creating the potential to raise rates while still remaining competitive. As with PFCs, reduced activity could still meet debt service by spreading debt payments out for a longer period of time.

- Parking Rate Income Generation - A significant portion of the Airport's parking is offsite and generates little or no operating profit. With a new on site parking structure rates could be increased while still being competitive and net returns could be used by the Airport Enterprise Fund for debt service on improvements.

- Revenue Bonds – Within the industry, pledging revenue bonds against an airport's revenue stream is a common financing mechanism for terminal improvements. This mechanism would be considered and likely utilized within a portfolio of other potential capital sources. "Insured Airport Revenue Bonds" provide back-up security should debt service by the Airport Enterprise Fund become problematic for whatever reason.

- Private Capital – Although private capital is typically more expensive than others sources, it could be pursued relative to Terminal Improvements. For example, construction of a new parking structure using contractor's financing, with pay back financed by the structure's parking revenue (at the developer's risk) could be utilized. Also, revenue from pre-payment of rent on certain Airport leaseholds could be used, discounted to "net present value". For example, Parcel A-1 (adjacent to the north side of the Terminal area) will be available for redevelopment in five years and could be marketed any time prior to that time. Also, parcel B-10 (at the Airport's entrance) could be marketed at any time. Development could be conditioned on a requirement that, for example, 40 years of rent be "pre-paid" at a discounted net present value.

- Airline Up Front Payments – Most airlines will not be interested in "up front" payments. However, the City would be generating new longer term leases (e.g., five years) as part of any financing and could offer all airlines the ability to buy "investment shares" in terminal improvements, in exchange for credits against user fees over a multi-year period. Such cost recovery would include the airlines' cost of capital. An airline that participated would lose its investment if it left prior to the term of the payback agreement. As noted, JetBlue entered into a similar agreement with the construction of a temporary holdroom in 2001.

Conclusion

If the City Council approves a Terminal Improvement Project after certification of the EIR, staff will work with the Financial Management Department to begin structuring a financing plan consisting of the elements identified above. If a project is approved, the detailed design process will commence and as this process proceeds, cost estimates will harden. This will permit serious discussions with the airlines, TSA, and other users toward a final Terminal Improvements Financial Plan for approval by the City Council, which will ensure no impact on the City's General Fund.

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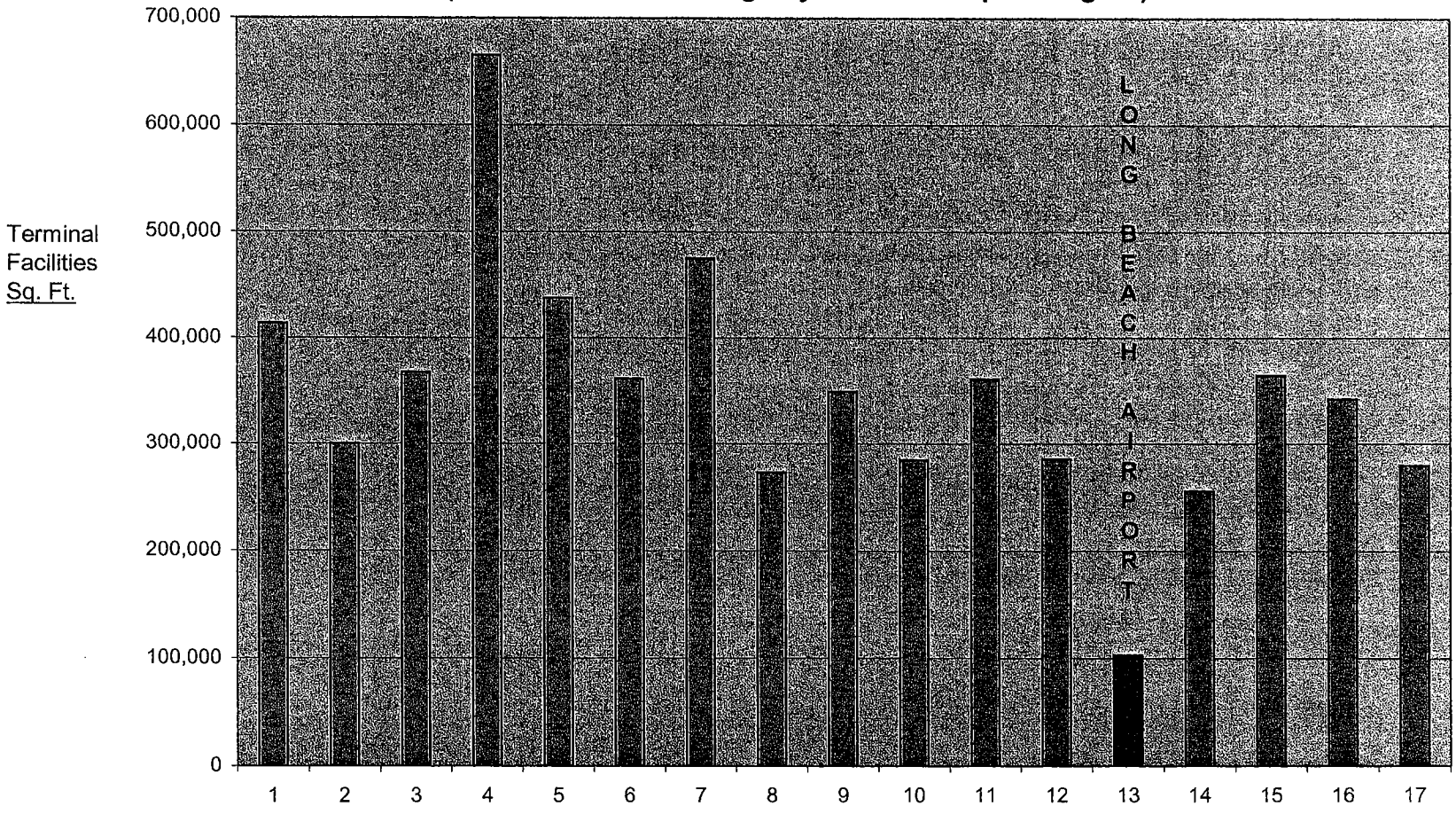
Attachment

cc: Christine F. Shipppey, Assistant City Manager
Michael J. Mais, Assistant City Attorney
Michael A. Killebrew, Director of Financial Management
Chris Kunze, Airport Bureau Manager
Mark Christoffels, City Engineer

Terminal Facilities Comparison
Long Beach Airport
vs
16 Nearest Airports in Passenger Activity
(based on DOT rankings by total airline passengers)



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Terminal Facilities Comparison
Long Beach Airport
Vs
16 Nearest Airports (based on DOT rankings by total airline passengers)

	Airport	Passengers 12-Months Ending April 2005	Terminal Square Footage	Airline Gates	Vehicle Parking Spaces	
1	**Buffalo, NY**	4,581,753	413,851	24	8,326	
2	**Manchester, NH**	4,093,230	300,000	15	11,000	
3	**Omaha, NE**	3,974,728	368,000	20	6,705	
4	**Norfolk, VA**	3,874,583	665,000	25	8,815	
5	**Tucson, AZ**	3,865,757	437,890	18	6,984	
6	**Louisville, KY**	3,495,894	362,000	23	6,000	
7	**Oklahoma City, OK**	3,431,700	475,000	17	4,849	
8	**El Paso, TX**	3,257,699	273,400	15	4,573	Expanding to 6,873 spaces in 2006
9	**Spokane, WA**	3,139,027	350,000	17	9,000	
10	**Albany, NY**	3,117,058	284,905	20	5,300	
11	**Boise, ID**	2,971,714	361,473	18	1,940	Expanding to 5,000 spaces, and planning for 8,000
12	**Birmingham, AL**	2,964,583	286,000	19	6,624	
13	**Long Beach, CA**	**2,957,987**	**102,850**	**12 to 14**	**6,286**	
14	**Greensboro, NC**	2,766,970	256,000	18	5,000	Additional parking capacity being added
15	**Dayton, OH**	2,730,939	365,000	29	8,200	
16	**Richmond, VA**	2,594,530	342,819	22	8,000	Expanding terminal to 510,000 square feet
17	**Colorado Springs, CO**	2,048,649	280,000	16	9,000+	

Note: Long Beach current terminal square footage is 56,320. Proposed improvements would yield up to a resulting total square footage of 102,850. LGB total annual passengers, with all commuter flight slots operational, forecast to be 4.2 m.

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