



## STAFF REPORT

**DATE:** May 1, 2017

**TO:** Ronald L. Olson, City Manager

**FROM:** Matthew Van Valkenburgh A.A.E., Executive Director of Aviation

**SUBJECT:** PASSENGER FACILITY CHARGE (PFC) APPLICATION

### **BACKGROUND AND FINDINGS:**

14 CFR Part 158 establishes procedures which allow airports to apply for approval to impose (collect) Passenger Facility Charges (PFC) from enplaned passengers and use those revenues for eligible capital improvement projects. PFC revenues are then used to fund either the full cost of eligible projects or to satisfy the sponsor's match requirement for FAA Airport Improvement Program (AIP) grants. The Killeen Fort Hood Regional Airport (KFHRA) has an existing PFC; however, the authorized impose and use amount of that application is nearing its expiration and a new application is necessary to fund required projects and continue the program.

Killeen has participated in the PFC program and has received PFC funds at Killeen Municipal Airport and, later, KFHRA continuously since 1992 and has had a collection rate of \$4.50 per passenger since May 2001, shortly after the Federal regulation changed to allow that rate. This critical airport capital improvement funding program significantly contributed towards the original construction of the KFHRA and several subsequent capital improvements: the ramp and taxiways supporting commercial operations, the state-of-the-art security system, the wildlife hazard reduction equipment, and, the airport master plan.

The PFC fees are collected by the airline that sells the ticket for the leg of the flight departing from Killeen Fort Hood Regional Airport as part of the ticket charge. The airline is allowed to retain a \$0.11 handling fee and then forwards a check for \$4.39 per passenger directly to the airport. These revenues are deposited into a restricted account that can only be used for the specific projects that were approved by the FAA in the application.

The process for submitting a PFC application begins with coordination with the FAA, notifying and then consulting with air carriers serving the Airport, notifying the public, and, following a thirty (30) day comment period, submission of the final application to the FAA.

Aviation Staff began the formal process for a new PFC application on March 1, 2017, with notification to the airlines which serve Killeen of the City's intent to impose and use PFCs for projects at Killeen Fort Hood Regional Airport / Robert Gray Army Airfield. A consultation meeting with the airlines was conducted on April 6, 2017; public notice of the City's intent to impose and use PFCs was published in the Killeen Daily Herald and posted on the City's and Airport's web site inviting comments on the proposal on April 11, 2017. A copy of the Public Notice is attached. The airlines fully endorsed the application projects, and no public comments were received at the end of the comment period on May 12, 2017.

The proposed charge effective date for this application is October 1, 2017 (the same date as expiration of the current application) with an estimated expiration date of July 1, 2020. The request is to collect a total of \$1,540,000 at the rate of \$4.50 per enplaned passenger, which is the same rate as our existing PFC.

Projects intended to be funded in the application either wholly or in part are as follows:

Table 1. PFC Project List

Project	PFC	Total Project Cost
Terminal Building Improvements - Boarding Bridge Replacement	\$ 660,000	\$ 6,600,000
Flight Information & Common Use System Upgrades	\$ 750,000	\$ 750,000
Airport Ramp Rehabilitation	\$ 50,000	\$ 500,000
Rehabilitate Airfield Electrical/Lighting Vault - Engineering Analysis	\$ 40,000	\$ 40,000
Administrative Expenses	\$ 40,000	\$ 40,000
<b>Total</b>	<b>\$ 1,540,000</b>	<b>\$ 7,930,000</b>

All capital projects included in this application are for replacement or upgrade of current equipment / systems. Completion of these projects is expected to reduce current operational costs for maintaining those items. No new maintenance or operational expense requirements are created. A more detailed description of each project and the need for each project is provided in the Public Notice, a copy of which is attached to this staff report.

City Council approval of this PFC application does not in itself imply approval to proceed with the expenditure of funds on any of the listed projects. Staff will request appropriate City budget approval and/or contract approval, as applicable, prior to the initiation of each project. Assuming FAA approval of this application, the amounts indicated in Table 1 are the maximum amount that may be expended from PFC funds for each project unless the application is subsequently amended per 14 CFR Part 158.

**THE ALTERNATIVES CONSIDERED:**

Staff considered two alternatives concerning the PFC program. Those alternatives are:

1. Request to collect \$4.50 per enplaned passenger to fund authorized projects; and
2. Decline to use the PFC program and use other local funds to match FAA grants and to fully fund other capital projects.

**Which alternative is recommended? Why?**

Staff recommends Alternative 1 and continuation of the PFC program at the collection rate of \$4.50 per enplaned passenger. Approval of this application positions the Airport for continued success, replaces aging equipment expensive to repair and operate, provides needed ramp rehabilitation, and solidifies the City's joint-use operations with Fort Hood.

Alternative 2 (declining the application) would result in the loss of \$6,390,000 in available FAA Airport Improvement Program grants for the ramp rehabilitation and boarding bridge replacement; other sources of revenue would need to be identified to match these grants. It will also result in an inability to complete critical airport capital projects which are intended to decrease existing operating costs while increasing reliability and safety of airport infrastructure.

### **CONFORMITY TO CITY POLICY:**

This application and the projects within support several City strategic plan goals:

#### Goal 2. Preserving, Enhancing and Leveraging Partnership with Fort Hood

Enhance the working relationship with Fort Hood as the model for military-civilian partnership. The analysis of the east airfield electrical / lighting vault will identify deficiencies and determine the scope of the rehabilitation to ensure both civil and military aircraft have adequate airfield lighting to complete their missions

#### Goal 3. Safety and Security

Remain current with technology to improve effectiveness and efficiency of services.

- Rehabilitating the ramp will ensure a safe operating environment for civil aircraft for the next ten (10) years.
- The flight information and common use upgrades help to provide information to customers.

#### Goal 5. Improved Efficient and Effective Transportation Systems

Expand air service to the area.

- The flight information system and common use upgrades eliminate barriers to existing carriers and new entrants by reducing their costs to establish and maintain infrastructure.
- The new passenger boarding bridges improve the airport's ability to provide service to our airline partners and will provide the latest energy and operating efficiencies to the airport, lowering operating and maintenance costs.

#### Goal 6. Preserve and Promote a Positive City Image

Maintain quality public facilities.

- The ramp rehabilitation, passenger boarding bridges, and flight information / common use systems all improve the quality of public facilities providing the best in safety, convenience, and service to the customer.

Increase customer service levels for internal and external customers.

- These improvements will provide significant upgrades and safety in the operating environment for our existing airport tenants.

#### Goal 8. Targeted Economic Development

Expand economic opportunities for the airport

- The reduction of economic barriers with flight information / common use system upgrades give the airport an important talking point and bargaining point with airlines during air service development discussions and negotiations.

Goal 10. Sound Infrastructure

- Improving the boarding bridges and flight information / common use systems will ensure safe, secure, and sound infrastructure for the airport.
- Rehabilitation of the ramp will provide a safe operating environment for personnel and aircraft.

**FINANCIAL IMPACT:**

The total impact to the airport operating fund is net zero. This is a restricted use fund that can only be used for the projects and amounts approved in the application. This PFC application will span approximately two years and nine months through July 2020 to collect the proposed amount of \$1,540,000; the PFC fees are deposited in account number 529-0000-325.05-00 PASSENGER FACILITY CHARGE.

**What is the amount of the expenditure in the current fiscal year? For future years?**

Exact project costs for each year are difficult to determine due to the complexity of the projects. However, FY2017 estimates from this account are \$270,000; FY 2018 estimates are \$1,200,000.

**Is this a one-time or recurring expenditure?**

The specific projects authorized by this application are one-time capital expenses spread over length of project construction and/or design duration.

**Is this expenditure budgeted?**

Yes; PFC expenditures and revenues are budgeted each year in the 529 account.

**If not, where will the money come from?**

N/A.

**Is there a sufficient amount in the budgeted line-item for this expenditure?**

Yes.

**RECOMMENDATION:**

City Council authorize the collection and use of up to \$1,540,000 in passenger facility charges at the rate of \$4.50 per enplaned passenger for the projects identified in Table 1 and authorize the Executive Director of Aviation to submit the Passenger Facility Charge application documents to the FAA to obtain FAA approval for said collection and use.

**DEPARTMENTAL CLEARANCES:**

Finance  
Legal

**ATTACHED SUPPORTING DOCUMENTS:**

Public Notice

Presentation