

Y P E

A Public Enterprise Airport.
Not for profit-not subsidized

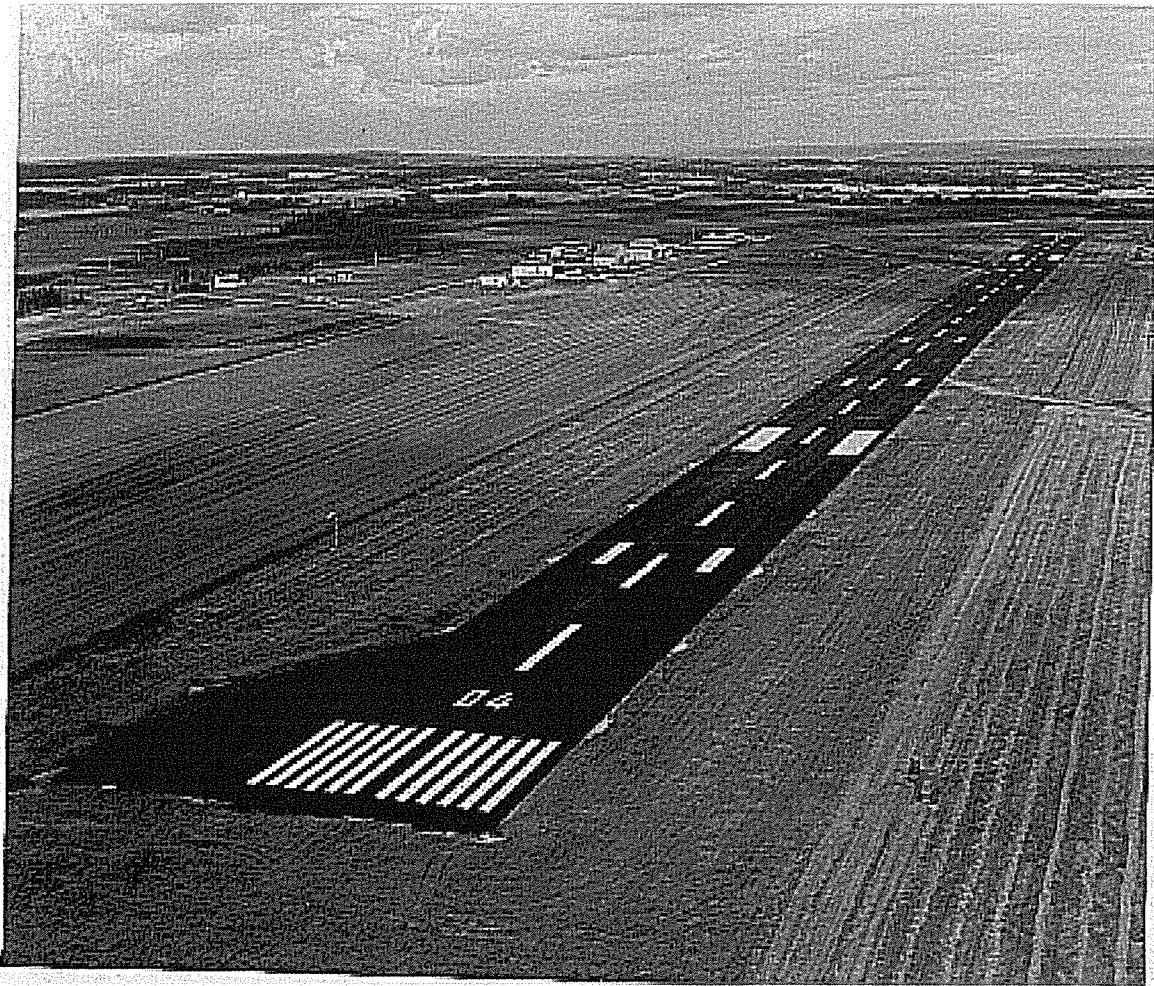


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Update to the 1996 Business Plan

April 25, 1998

Peace River Airport- 1998 Business Plan



*Prepared for
The Town of Peace River*

*by
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Vision:

To operate the Peace River Airport in the best interests of the community

in an enterprising fashion

Without a profit motive

But in a business-like way to ensure that the long range objectives of the airport

can be achieved without subsidies.

TOWN OF PEACE RIVER

1

Executive Summary

Strategic Direction: “Not for profit-not subsidized, Public Enterprise.”

In 1993 the Peace River Airport lost \$17.28 for every passenger using the airport. An operating subsidy, paid by the Federal Government, made up this deficit. Transport Canada owned the Peace River Airport and controlled the way the facility was managed. The Peace River Airport won its freedom from Federal Government control only two years ago. The first airport business plan set out a strategy to move the airport away from the management systems devised by the Federal Government to local accountability and control.

The original business plan set out a prescription for very short run action to shift into the nonprofit enterprise mode from that of a subsidized federal government institution. The required actions were urgent and there was little room for analysis and counter arguments. Now that they have established a firm foundation, the new initiatives discussed in this plan involve less urgency in the decision making processes. An emphasis of this 1998 business plan is to make progressive improvements and begin to focus upon longer range goals.

The airport will retain between \$3.72 and \$6.27 per passenger over the next four years to help finance capital and contingency needs. This result compares quite favourably with 1993 when the airport lost \$17.28 for every passenger.

1998 SWOT:

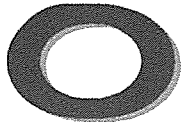
A common practice is for business plans to summarize key details in a format known as a SWOT summary. That is to outline the **Strengths**, **Weaknesses**, **Opportunities** and **Threats** to the enterprise. For 1998, the major elements are summarized here:

Strengths

- *Excellent financial foundation- Self sufficient and self sustaining.*
- *Successful in obtaining capital grants.*
- *High Quality infrastructure- Air side facilities.*
- *Good promotional strategies.*
- *Strong Regional Support.*
- *Resource development activities driving airport growth.*
- *Convergence of 3 Transportation modes.*
- *Centre of Regional Emergency Response Services(PREMS & 911).*
- *Efficient and experienced operational staff.*
- *Synergies between tenant skills and Regional service needs.*

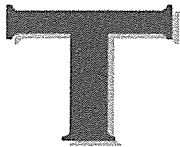
Weaknesses

- *Capital planning/facility condition reporting needs improvement.*
- *Bookkeeping/accounting structures need to be simplified.*
- *Need a non-aviation revenue source.*
- *Airfare affordability.*
- *Adaptability of personnel to an “enterprise” role can be improved.*
- *Limited runway length, lack of a second/crosswind runway.*
- *High Airport Operating Fee(AOF).*
- *Need to pro-actively market the unique skills of the airport.*
- *Property tax diversion to M.D. of Peace.*
- *Airport is outside the municipal boundary.*



Opportunities

- Help other airports, of a similar size, to transfer ownership by providing consulting services.
- Strong potential for a second airline to begin service.
- Staff cross utilization/synergy with other town operations.
- Expand towards a Regional emergency training centre based at the airport.
- Multi-modal transportation centre development.
- Proposed service improvements for major tenants, eg. Car rental agencies.



Threats

- Heavy dependence on fixed fees.
- Potential for reduction in services provided by the Flight Services Station(NAV-Can).
- An upstart airline could seriously impact upon service provided by the scheduled carrier.
- Changes in Federal rules, such as emergency response, without cost offsets.
- Post 2000, there is a potential for continuing Federal Subsidies to other airports and a need for equitable treatment for Peace River Airport.

Previous Strategic Objectives:

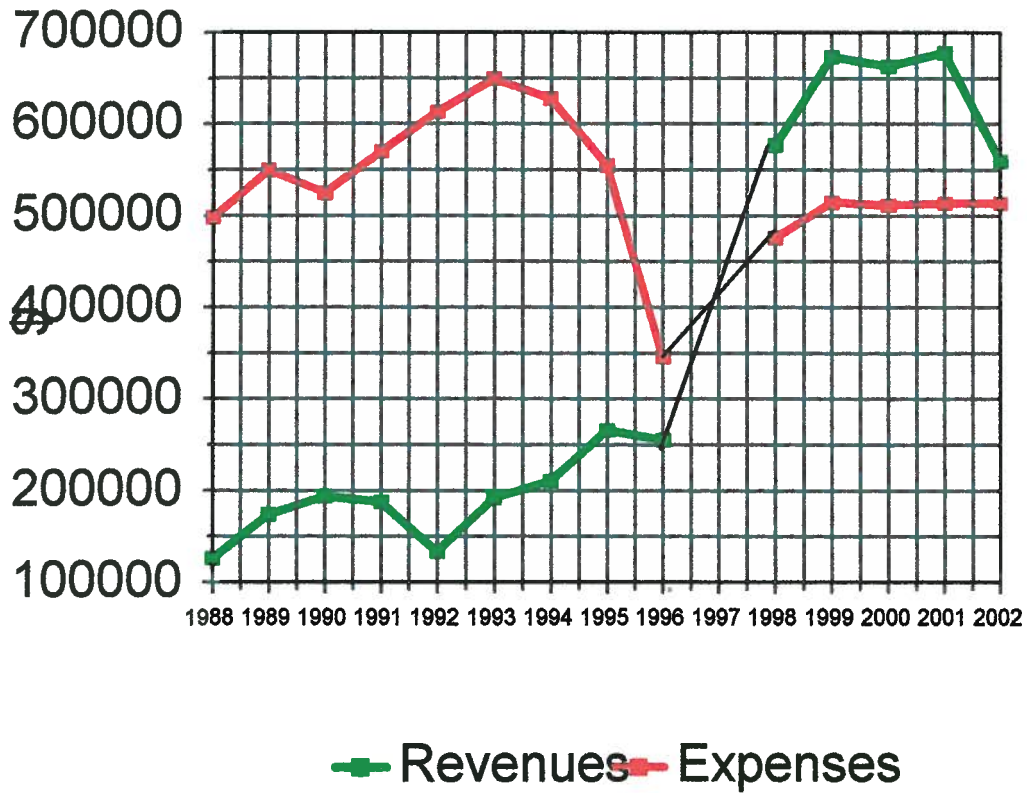
Summary of 1996 business plan objectives	
<i>Strategic directions</i>	<i>Current status-Outcome</i>
<i>1. Alliances with hub airports</i>	Developing eg. ERAA billing system
<i>2. Operate within financial plan- AOF C & CR Piston fees cargo fees</i>	Achieved yes yes yes no ¹
<i>3. Improve operational efficiency</i>	Achieved-administratively Improved-operationally
<i>4. Seek non-aviation development</i>	Developing eg. Regional Emergency response service
<i>5. Tourism partnerships</i>	Some Successes: eg. Air show & B17 visit
<i>6. ATB marketing/promotion</i>	On going eg. Board of Trade initiatives
<i>7. Tax sharing agreement</i>	unchanged
<i>8. Market airport skills</i>	Prospects developing eg. Fort Nelson airport commission

¹ Note: a cargo through put fee would involve an equivalent level of “pioneering “ effort as was needed to achieve the AOF. Peace River airport would be breaking new ground (although such fees are levied in European airports.).

Strategic objectives- 1998:

Short Range Objectives	
1	<i>Conduct engineering/technical inspections for capital planning purposes along a 5-20 year horizon.</i>
2	Renegotiate caps on the General Terminal Fee (GTF) to maintain the Canadian Regional Airlines fee cap, while allowing total collections of GTF to rise (\$75,000 is suggested) if a second airline starts up.
3	Renegotiate the pro-rata arrangement with Canadian Regional Airlines on the Airport Operating Fee(AOF) to allow a lower charge when passenger volumes increase.
4	Staff synergy improvements with other Town operations.
5	Re-tune airport financial reporting codes to ensure comparability with other airports and more closely match revenue objects to cost centres.
Mid Range Objectives	
6	<i>Eliminate charges for Private(non-commercial) Aircraft</i>
7	Provide consulting and other services to other airports.
8	Prepare for a second airline to commence service.
9	Regional emergency response training centre
Longer Range Objectives	
10	<i>Develop a long range program for major airport improvements (capital projects).</i>
11	Continue cost reduction initiatives in operating costs.
12	Continue marketing and promotional activities.
13	Revenue/tax sharing with M.D. of Peace
14	Cargo throughput fee
15	Build guidelines for Capital & Contingency Reserve fund Management

Revenues vs. Expens



2

Two Years in Review

Purpose

Peace River has successfully transformed a heavily subsidized federal airport into a self sustaining division of the Municipal Government. They achieved this success through the direct involvement of Mayor Mike Procter and Council in simultaneously negotiating very favourable terms for the airport asset transfer; and, providing clear instructions to management in reducing wasteful practices, increasing revenues, and being more accountable to the community. This transformation did not happen without some very difficult choices, and not everyone benefitted from the financial adjustments. However, these decisions had to be made. Airport Staff, Management, and Council are commended for their strong sense of commitment to the long term needs of the Peace River Region and sticking to those objectives in the face of objections by those wishing to preserve an untenable status quo. A good plan more often than not leads to a good outcome. Beyond the plan, they actually carried out the task flawlessly. The Peace River District can now enjoy the benefits of a self sufficient airport. **This Airport is not a burden on ratepayers.**

The update to the business plan is intended to refresh the passenger and aircraft forecasts; recast the financial predictions for operating and capital needs along a five-year period (1998-January 2003); review specific issues about pricing policies; and, begin discussion on some new strategic objectives for the airport. The primary focus of this 1998 business plan is the Air Terminal Building(ATB) revenue and capital expense streams.

The first business plan for the Peace River Airport is now more than two years old. Such plans are intended to be continuously updated and therefore the original plan is now quite dated. In addition, the purpose of the original document was limited. The original business plan was prepared to help transfer the airport to local control from that of the Federal Government. Thus, it was important for the plan to show a strategy for transforming the airport into an economically viable entity in a very short period. Due to time and budget constraints, the study was limited in scope and not a complete business plan. Given the limitations of the original version, and the many uncertainties involved

then, it has served the Town of Peace River very well in that the airport transfer was achieved under favourable terms; the strategic objectives were laid out and, what is more important, implemented. The first business plan contained no serious oversights nor omissions.

Financial Performance

The original business plan noted that the annual financial situation for the airport would fluctuate with the passenger activity levels experienced. Because of that fact, we recommended that a capital and contingency reserve fund be established to offset periods of loss and avoid the need for ratepayers to subsidize the airport. The proposed contingency strategy has been quickly validated. Revenue streams coming to the airport today are less responsive to activity variations than the plan had envisaged. In a rising demand situation the airport will face a somewhat less favourable return on investment and less capacity to manage the future direction of development.

1996- Transition year

The original business plan² had predicted an operating loss of \$89,600 based upon mid range predictions of passenger and aircraft activity. Actual losses from operations were \$89,992³ These results provide validation of the short run forecasting methodology used in the plans.

The business plan had recommended that a charge based upon passenger use of the facilities should be introduced, in 1996, to help offset the operating loss and to build capital for airport improvements. This factor was identified as the single most important element in ensuring that the Peace River airport would become self sufficient. Through negotiations with Canadian Regional Airlines Ltd. the proposed fee was introduced under a slightly different format, and renamed to reflect these adjustments, as an Airport Operating Fee(AOF). The format change involved a relatively flat fee approach. Given the desperate circumstances faced by Canadian Regional Airlines parent company at that time, the revised fee arrangement was most probably the best that could be achieved.

As a result of the Town negotiations with the Federal Government, the airport received a subsidy that was used to finance the predicted operating loss and other airport operations. After covering these losses from operations, the airport was able to place \$229,749⁴ into the capital and contingency reserve fund during 1996. The actual amount of the federal

² 9th April, 1996 edition.

³ Source: Auditors Report --Schedule C.

⁴ The Transport Canada contribution schedule sets out a series of payments as follows: in 1996 a payment of \$ 316,834; \$ 345,800 in 1997 ; \$ 258,194 in 1998 ; \$ 170,594 in 1999; and, \$ 28,960 in 2000. The subsidy is permanently terminated at that point.

contribution was not known when the first business plan was prepared. However, the contribution negotiated by Council from the federal government was **considerably higher** than the business plan had anticipated.

1997-First surplus in Airport History

The business plan had predicted that **1997 would be the first year in the history of the airport where the Peace River Airport would generate an operating surplus.** The actual surplus was larger than anticipated, based on unaudited figures the amount is approximately \$150,000. The Federal Government also provided the second installment of their payment scheme in the amount of \$345,800.

Therefore from a financial perspective the airport fully met the 1996 and 1997 objectives set out in the business plan.

Passenger Demand

The original business plan had noted that a general up trend was developing in passenger volumes. This was considered as an advantageous time to introduce the new airport operating fee (AOF). The passenger trends were anticipated to be enhanced by reduced fares, or muted by increased air travel costs. A balanced approach to the AOF was sought so that the new fee would not trigger a downturn in the passenger demand while requiring a rate that would place the airport in a stable financial position. The rate chosen was **the minimum amount** that would sustain the airport over a 20 year time frame. The Peace River AOF represented only one component of generally increased cost for aviation and these factors were also considered. The results indicate that the passenger demand was essentially stable in year over year comparisons.

1996

The business plan anticipated a minimum volume of 24,260 passengers for 1996. The maximum range of the forecast volume was 30,000 passengers. The actual volume was almost precisely at the mid point between the high and low forecast with 27,501⁵ passengers using the Peace River Airport.

⁵Source: Airport Manager statistics.

1997

The business plan had anticipated that an improving economy would push demand over 30,000 passengers. Results indicate that this expectation was not met and volumes for 1997 were essentially identical to 1996 at the 27,000 passenger level. This outcome was within 10% of the minimum anticipated range. However, it does provide an indication that the forecasts should be continuously refreshed.

Therefore from a passenger demand perspective, the 1996 business plan supplied a relatively accurate forecast of short run passenger volumes; and an acceptable prediction of the later periods under review.

Aircraft Demand

Aircraft demand characteristics are somewhat less influential on the economic health of the airport when compared with passenger demands. The original business plan had observed that a general decline in aircraft movements was evident. This situation is sub-optimal for new fee introductions since it tends to increase the rate of decline.

Notwithstanding this observation, a **perception that charges were inequitably skewed towards the airline operators** led to the introduction of a piston driven aircraft charge.

1996

The minimum range forecast was anticipated to be 20,000 aircraft movements. However, actual demand was 17,620⁶. This outcome was significantly below the range of expected values and therefore the parameters for short run demand forecasting of aircraft movements will require some adjustment.

1997

Aircraft demand improved in 1997, to 19,400⁷ movements. However, this still lagged behind the lowest point in the forecast range by 600 aircraft movements (the low estimate was 20,100). As a result, the 1997 forecast was acceptable, but unduly optimistic in setting the upper bounds of the demand. again, the range of anticipated outcomes needs to be adjusted downwards for future aircraft movement forecasts.

⁶ Source: Airport Manager statistics

⁷ Source: Airport Manager statistics.

Capital Expenditures

The original business plan correctly anticipated that the federal government would establish a form of grant for smaller airports to finance major capital improvements. The program, called Airports Capital Assistance Program(ACAP), provides grants across a much wider range of projects than was anticipated.

1996

There were no significant capital investments during the transition year.

1997

The airport completed installation of a new sewage lagoon that cost \$230,000. The airport runway was re-paved at a cost of \$864,000. **Local ratepayers were not required to finance any of these major projects** since the Federal Government provided a **100% grant**. Since both capital projects involved local companies there was a strongly positive economic spin to the regional economy from these airport activities.



3

Update to Forecasts

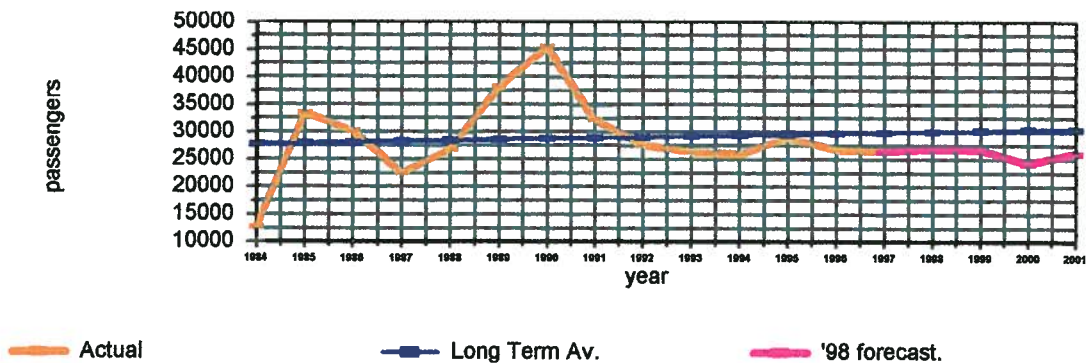
The original business plan contained the following cautionary note concerning all forecasts.

“No one has ever developed an absolutely reliable method of predicting the future- in any endeavour. All aviation forecasts are based upon comparison with historical results, or with reference to “bellwether” historical results. Therefore, all have an obvious flaw that can be explained by analogy. Consider that the front windshield of your car was completely blacked out and the only way for you to gain information about the road was through your rearview mirror. Provided the road was fairly straight, you could navigate down the road for a time using only the rearview mirror. However, eventually you would find a curve and hit the guard rail. Based upon that result you would alter course and again, assuming the road was fairly straight you could continue until the next curve occurred.”

Passenger statistics

Passenger demands appear to be quite stable at the moment, and are expected to remain in a narrow range through 1999. This expectation is highly dependent upon the

historical passenger stats.



assumption of a single airline operation. An upward “demand shift” is quite likely if a second airline chooses to begin operations. The table on the next page sets out the range of possibilities for the single airline case only. Further the column labelled “PLAN ESTIMATE” that follows sets out a conservative estimate that requires the forecast to show at least one year within the five years planning period at the lowest level within the predicted range⁸.

Passenger Forecast 1998

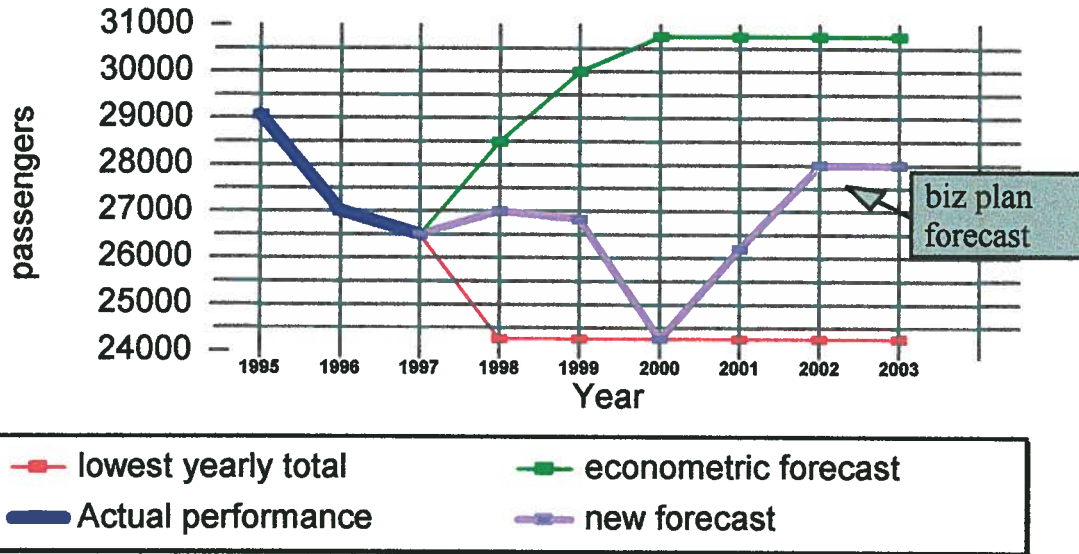
PASSENGER DEMAND			
<i>FORECAST YEAR</i>	<i>Low range estimate</i>	<i>High range estimate</i>	PLAN ESTIMATE
<i>1998</i>	24,260	28,500	27,000
<i>1999</i>	24,260	30,750	26,838
<i>2000</i>	24,260	30,750	24,260
<i>2001</i>	24,260	30,750	26,200
<i>2002</i>	24,260	30,750	28,000

The foregoing table sets out the results of a series of forecasting techniques used to establish a “confidence interval” or range of outcomes for passenger activities in the years ahead. This series is then used to project the financial situation of the airport over the indicated time period. By way of explanation, the upper bound of the forecast is based upon econometric forecasting while the lower bound forecast is a combination of the worst monthly totals over the last several years. To maintain a conservative economic forecast, management are required to anticipate that at least one of the five years in the forecast will involve a downturn in passenger volumes. **This downturn is therefore not predicted by the forecast** but a prudent strategy for business planning purposes.

A graph on the following page shows this likely range of outcomes for passenger activity.

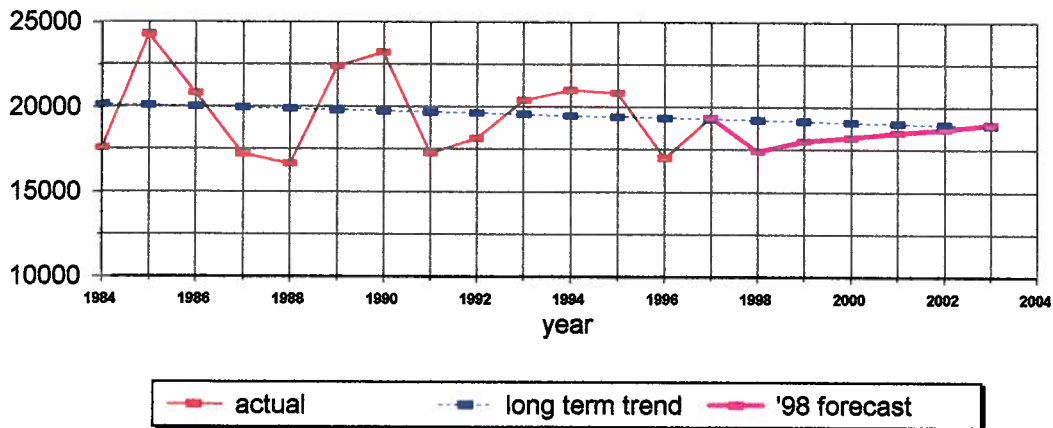
⁸The forecasting methodology is more fully explained in the notes that accompany the original business plan.

Passenger forecasts



Aircraft forecast-1998

Aircraft movements



Aircraft movements are anticipated to generally conform to the trend that presently indicates a long range decline in total flights. The business plan expects 1998 to be the low point before a gradual increase in total aircraft movements towards the long term averages.

Aircraft Demand Forecast	
<i>Year</i>	<i>Estimated Total used for Business Plan</i>
<i>1998</i>	17400
<i>1999</i>	18000
<i>2000</i>	18200
<i>2001</i>	18500
2002	18700

4

Pricing Policies

The airport pricing policies, in their present form, have fully achieved the objective of placing the operation on a stable financial foundation. This advantage allows management the luxury of having time to make strategic adjustments in a carefully planned fashion. There are some longer range vulnerabilities that management should attend to. By way of explanation, the originally conceived fee structure involved a combination of fixed and variable revenue components. The variable fees were focussed upon passenger activity and were structured to take advantage of upturns in passenger volumes. A variable approach provides economic gains during the growth stage to help offset (potential) losses during downturn periods. Most businesses that operate in cyclical markets take advantage of these patterns. Due to pressures to achieve an early start to the revenue program, most of the variability advantage was eliminated during negotiations. The resultant airline charge structure is as follows:

Airline Fee Structure		
	Fixed or Variable	<i>Variable component-</i>
Airport Operating Fee	Fixed	Capped maximum and reductions if 2nd airline starts up.
<i>Space Rent</i>	Fixed	An O. & M. cost factor is proportionately applied.
<i>General Terminal Charge</i>	Fixed	Capped maximum and reductions if 2nd airline starts up.
<i>Aircraft parking Fee</i>	Fixed	based on airline schedule
Landing Fee	Fixed	based on airline schedule

Based upon the foregoing simple chart it is quite evident that **the airport cannot accumulate an economic advantage from a second airline nor from increased passenger volumes**. When the AOF was first introduced, it was hoped that a reduction in the AOF could be implemented once the airport finances were stabilized. In a reduced passenger demand scenario, there is evidence to suggest that the airport will face pressure to cut airline fees under threat of service reductions. Drawing awareness to this vulnerability is intended to lead management towards progressive, gradual adjustments in the fee structure as agreements mature - or the opportunity presents itself. There is no urgently compelling reason to disturb existing agreements today. However, that assessment could change very quickly.

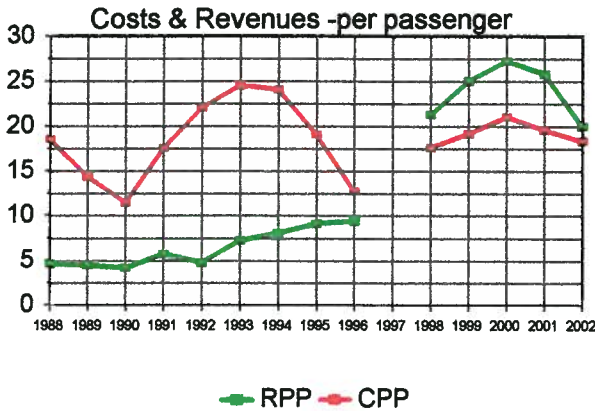
A second potential threat to the airport is that the fee structure was “inherited” from the federal government; married to the Town of Peace River cost accounting system; and, subsequently modified to suit a non-profit public enterprise arrangement. The net result is that cost centres and revenue centres are no longer closely aligned. In many ways the current bookkeeping system is unduly cumbersome and leaves the airport management open to unwarranted criticism for cost allocation practices. Such criticisms are most keenly felt by airport managements during airline consultations leading up to facility improvements.

Airport Operating Fee(AOF)

The AOF stands as the most important factor in financial self sufficiency for the airport. The AOF is based upon an approximate calculation of \$8.50 per passenger. The fee as actually implemented is somewhat less than optimal but this of itself does not take away from the basic advantage gained by the introduction of the fee. The airport did gain some extra advantage as a result of the early fee implementation. This was then a pioneering effort. The commentary herein is intended to set the stage for the next round of negotiations when the agreement expires, or in a case of mutual consent between the parties.

The AOF was originally conceived as a fee that both increased total revenue as demand increased, and was reduced proportionately when passenger demand was lower. The fee as actually implemented does not vary but has a fixed maximum. Further if a second airline commences operation, the amount of the fee becomes pro-rata split between the airlines. The effect of these two factors in combination is that the airport will be unable to take advantage of the peaks in traffic and build a “war chest.” The airline is only obliged to remit fees up to the maximum limit. It is unlikely that any ticket price rebates would be forthcoming for passengers buying tickets after the maximum amount had been collected and remitted.

The airport will obtain less than \$8.50 per passenger when passenger counts exceed 28,200. This figure is well within the range of current possibilities, even without the influence of a second airline. The following graph shows a comparison of the operating



revenue versus operating cost profile for the airport on a per passenger basis. The business plan forecasts that the airport will retain between \$3.72 and \$6.27 per passenger over the next four years to finance capital and contingency needs. This result compares quite favourably with 1993 when the airport lost \$17.28 for every passenger.

However, if this fee had been variable with passenger volumes, as passenger loads increased, the amount charged in AOF could have been reduced. That is, since all of the basic operating and contingency cost requirements would already have been covered, only the capital portion of the AOF would have to be remitted. Intuitively this makes some sense because in an increasing demand situation, the need for expansion or upgrades, becomes more urgent. Both the airline and Peace River Airport **should** have an incentive to increase passenger demand levels.

AOF Adjustment Options

The situation for the airline at the time of the AOF negotiation was quite different then that it is today. The airline urgently needed a predictable cash flow to work its way out of a crisis. They achieved their objectives in this regard. However, the airline cannot reasonably expect that an excess windfall should accrue to them as a result of the AOF applied to passenger tickets. I suspect neither party to the agreement contemplated that prospect. The idea to establish a fixed monthly payment for the airline is quite elegant and that component of the existing arrangement has benefit to both parties. Because of this payment schedule approach the airline does not have to spend excessive accounting effort, and has some certainty of monthly financial obligations.

At the time of the AOF negotiations, the airline had expected that there would be a legislated framework applied to the AOF, but this did not materialize. On that basis the airline may now be willing to “tidy up” some of the details within the agreement on AOF. At the very least, there should be a reconciliation mechanism to maintain the integrity of the \$8.50 fee. One simple way to ensure that Peace River Airport received a

fair and reasonable degree of compensation would be to review the Statistics Canada passenger results for the previous year. If a significant deviation in either direction was noted then either a rebate, or a supplementary charge to the airline could be applied. This approach has several obvious advantages. First, the statistics are controlled and prepared by a neutral third party. Secondly, the airline is not "penalized" by a fixed fee when the passenger counts are low; and., the airport is not penalized when the passenger counts are high. As an added incentive, the airport could offer a variable AOF rate if the airline exceeds the 28,500 passenger basis. A \$5.00 AOF for all passengers in excess of that basis point would be fair to the passenger, and a reasonable contribution towards airport capital needs.

An oddity of the present arrangement with Canadian Airlines is that the AOF is attributed to landing charges. This approach is entirely inappropriate. The passenger based fee should be attributed to the passenger processing facility-the terminal.

AOF and a Second Airline

It is absolutely in the best interests of Peace River town, and district, for there to be a competitive airline service situation. A new airline should not be allowed to take advantage of, and erode, the base built by Canadian without a similar long term commitment. The second airline and their passengers should be required to pay, as a minimum, exactly the same fees and charges as the existing airline. It does not make sense to hold the AOF at a constant fixed maximum when it is more than likely that the need for airport improvements will be accelerated by the increased demands.

AOF/landing fees and Private Aircraft

The AOF is charged against every airport passenger, regardless of the type of aircraft they arrive in. This system of "everybody pays the same amount" is equitable, but involves a substantial administrative burden for Town staff to track the activities of hobby flyers. Private aircraft accounted for only \$800 in AOF charges in a representative six month period. The economics of preparing and sending an invoicing these users does not show a positive return on investment. On that basis, it is suggested that the practice be reviewed with a recommendation to discontinue AOF charges and landing fees for private two and four seat aircraft. This discontinuation would have a secondary benefit in making the Peace River airport a more attractive spot for recreational flying; potentially leading to increased revenues for airport service agencies.

Space Rental Prices

no issues. It should be noted that the airport is adopting a billing system devised specifically for airports. The system was developed by Edmonton Regional Airports Authority (ERAA).

General Terminal Charge(GTC)

The general terminal charge concept is essentially a carry over from Transport Canada systems of administration. There is no direct attribution of this fee to a cost centre. Furthermore, the GTF has been linked to aircraft landings. There is no logical reason for this accounting attribution. By way of explanation, the General Terminal Charge is a fixed fee, the majority of which (97% or so) is currently paid by Canadian Regional Airlines. The fee only applies to airlines that make use of the Terminal Building. The terms of the agreement with Canadian Regional contain provisions for a proportional rebate if a second airline begins operation. This has definite economic advantages to Canadian Regional Airlines since there is a potential for their gross revenues to decline in the face of competition. When a second airline commences operation, the airport must make facility alterations, increase operating and maintenance activities and so on. At best, the airport is no worse off because of this proportionate arrangement. However, demand growth leads to a variety of cost implications that airport management cannot control. For example, new public address stations are needed, a second counter may be required in the holding room to deal with simultaneous departures. The hold room itself may have to be expanded; additional seating provided, and so on. On the maintenance side there are obvious implications for equipment that is subject to wear such as baggage conveyor belts. They will need to be replaced sooner than planned if they are used more than planned. Also, more subtle effects upon the building itself, leading to more frequent repairs, replacements and ultimately expansion. Since the airport would incur extra capital costs, extra O & M costs, and perhaps need to accelerate major upgrades, **the proportional rebate scheme has definite disadvantages to the airport.**

GTC Options

Recommend Airport management consider their position for the new term of the agreement (expires 31 August 2001) along the following lines:

1. This fee should be connected to a cost centre within the terminal building. In other words the charge should be for something specific. The charge, when justified, could be adjusted to add a fixed "Minimum" fee per airline instead of the existing maximum "per airline and airport". The maximum per airline could be preserved.
2. The pro rata arrangement, if continued, should be based upon passengers rather than aircraft movements.

Aircraft parking charges

No business plan issues.

Pricing for a Second Airline

As indicated elsewhere, the competitive forces exerted by a new airline operator will have a substantial direct benefit to the community. However, a certain **measure of caution** is warranted on behalf of the airport. An airline business **intention to skim the market on a seasonal, or temporary, basis will do harm** to the prime tenant in the short run. The airport should allow the competitors to deal with each other without undue interference. However, the pricing policy of the airport should be to ENCOURAGE a long term competitive situation and to dampen the advantages to short run peak skimming.

Any new entrant should be quite certain that they will be required to enter into space rent, AOF, landing and parking fees at the same rates as prime tenant. As a matter of policy, no special concessions in the normal pricing structure should be entertained.

Emergency Response-hypothetical

There is some speculation that emergency response requirements may be increased from that presently required by regulations and Transport Canada policy. Such action would increase the cost base for the airport quite dramatically even for quite subtle changes in the required level of service. A feasibility study and cost analysis for such changes goes far beyond the scope of this business plan. However, it is quite unlikely that the federal government would implement such a change without a commensurate mechanism for financing the service. The most likely scenario would involve a direct grant for capital needs (fire truck etc.) and **legislated capacity to charge new fees for such services**. On that basis airport management sought a conceptual analysis of the cost implications of providing extra service, given that the Town does not have around the clock full time coverage for response to municipal fire emergencies for example. The following data should be considered as nothing more than an order of magnitude estimate of cost to provide a fairly small increment in the emergency preparedness of the airport system.

Option #1 Town Fire Crews

An emergency response service that is only dedicated to the airport for the duration of airline flight times (two or three short time blocks per day, seven days per week) would cost approximately \$140,000 per year to provide. This figure is based on minimal operating costs and zero capital investment. **If the Federal government were to provide funds for the service then the entire community would derive improved emergency response services at minimal cost.** If there were no subsidy - but a legislated requirement, that translates into an additional cost of \$5.18 per passenger. A more detailed summary of the financial implications of this option are supplied in section #6.

Option #2 An Auxiliary Service

The regional ambulance service is located at the airport. Depending upon the nature of the hypothetical new regulations, the resident ambulance crews and airport personnel could be "cross trained" for emergency response services. There would be annual costs for training in the \$60,000 range that would include travel and accommodation costs to the Vermilion School. Additional compensation to the staff for the higher skill, and fitness level requirements, is calculated at \$30,000 per annum. These figures translate into an additional cost of \$3.33 per passenger.

5

Capital Planning

The basic **philosophy of airport management is to postpone replacement work as long as possible**. This simple concept means that components of infrastructure may be planned for replacement at a particular point in time-but that actual replacement will not occur until the full value of the asset has been used up.

The Peace River Airport maintains a twenty year plan for major capital and equipment replacements. The plan does appear reasonable for an airport of this size and complexity. At present this plan shows approximately \$2.9 million in capital will maintain the present level of service at the airport. Unfortunately, the amount is not based upon a truly defensible judgement or engineering assessment. It is, put simply, an educated guess. The federal government used to provide Peace River Airport with a myriad of services upon which to build a capital plan. These services included cost estimating, engineering analysis, capital programming and implementation services. All of these activities were directed towards optimal use of limited resources. These support mechanisms have now been disengaged and it now falls to airport management to replace some of these services to develop a credible long term capital investment strategy. Management are advised that a strong capital plan is as valuable as a business plan in setting out a future course of action. A “facility condition inspection” and “life cycle analysis” are proposed within the strategic objectives of this business plan to enhance the quality of the existing capital investment ideas. Further some preliminary engineering analysis should be carried out to increase confidence in the cost estimates. Because this work will follow the current business planning activity, the capital plans shown here remain “speculative” and should be considered as nothing more than the **author’s viewpoint of the potential magnitude of the capital program for the Peace River Airport in the next five years**.

The chart on the next page depicts a five year requirement for approximately \$550,000. It is normal for all such projects to receive priority setting and Council review before approval to proceed. Each project could be delayed or advanced depending upon the circumstances of the year.

Five Year Capital Plan					
<i>Project</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>ATB doors (replacement)</i>	\$ 12,000				
<i>restaurant(upgrade)</i>	\$18,500				
<i>Equipment(trucks /ploughs/sweepers etc)</i>	\$20,000	\$30,000	\$135,000	\$151,000	
<i>Tar kettle(runway sealer)</i>	\$16,000				
<i>Roof (replacement)</i>				\$ 10,000	\$ 90,000
<i>facility inspection study</i>	\$ 5,000		\$5 ,000		\$ 5,000
<i>Life cycle analysis & cost estimate data.</i>		\$ 10,000			
<i>ATB minor works-signs/seats etc.</i>	\$ 15,000			\$ 15,000	
<i>Business planning*⁹</i>	\$ 5,000	\$ 2 ,000	\$ 5,000	\$2,000	\$ 5,000
<i>Special Promotional and Advertising*¹⁰</i>	\$ 3,000	\$ 3,000	\$ 3,000		
Totals	\$94, 500	\$ 45,000	\$148,000	\$178,000	\$100,000

Capital and Contingency Reserves

A major thrust of the previous business plan was to establish a capital and contingency reserve fund. The purpose of the fund is to preserve the airport as a self sufficient enterprise. While the fund is now clearly well established, the question of whether the fund is adequate, or excessive, for the airport must be reviewed. The following presentation format is a significant deviation from the style presented by the

⁹An argument can be made for this recurring expense to be included in normal operating costs.

¹⁰ This amount represents special promotional activities that may be joint venture or sufficiently outside of normal course operating budgets that council approval would be sought. An example would be the air show or B-17 promotions.

Town of Peace River Municipal Operating Budget system, and that of the Audited Financial Statements for the airport. This format change is intended solely to isolate the dynamics of the reserves in relation to planned uses of the funds.

Cash flows through the Capital & Contingency Reserve Account					
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>Start of year balance</i>	\$ 778, 075 ¹¹	\$ 1,076,535	\$ 1,400, 689	\$ 1, 470,313	\$ 1, 489,706
<i>Federal payment</i>	\$ 258, 194	\$ 170, 594	\$ 28, 960	\$ 0	\$ 0
<i>Minus Capital funds used during year</i>	\$ (94,500)	\$ (45,000)	\$ (148,000)	\$ (178,000)	\$ (100, 000)
<i>Plus year end contribution from Operations¹²</i>	\$ 100, 536	\$ 159, 090	\$ 151, 299	\$ 164, 457	\$ 46, 430
<i>Plus earned Interest from reserves¹³</i>	\$ 34, 230	\$ 39,470	\$ 37, 365	\$ 32, 936	\$ 31, 149
End of year Balance	\$ 1,076,535	\$ 1,400, 689	\$ 1, 470,313	\$ 1, 489,706	\$ 1, 467,285

Another premise of the original business plan was that the capital and contingency reserves were designed to stand between the airport and the Town ratepayers. That is, the fund was designed to **prevent the need for town ratepayers to subsidize the airport**. This objective has been met in terms of the next five years. The five year view of the Capital and Contingency Reserve shows that it will peak in 2001 at \$1.48 Million.

The previous business plan suggested that the Town consider establishing parameters for the management and operation of the reserve fund. Some of the groundwork for this has already been initiated by management. This current business planning task was to review the operation of the reserve fund to determine whether, or not, adjustments are needed; and, to lay out a set of operating guidelines for the future of the fund. I highly recommend that “guidelines” rather than “rules” be established.

¹¹ Source: Airport Manager-from unaudited data -9 March 1998

¹² Forecast as of January 1998

¹³ Based upon an assumed annual rate of 3%

Guideline for Capital Reserve Management

Base Figure

The fund was designed to quickly accumulate approximately \$1.0 million in reserves; and, to sustain this amount over the foreseeable future. The one million dollar amount is somewhat arbitrary, but justifiable. It is best described as a risk management approach, considering the possibilities and establishing a figure based upon these potential outcomes. In 1995 the airport had an operating deficit of \$ 288,000. So on that basis, the reserve represents a capacity to **operate the airport in a very serious loss situation** for approximately three years. A three year time period represents sufficient time for management to make economic adjustments to correct whatever caused the problem. One might ask if planning for that eventuality is realistic. The airport has operated for decades in a loss situation, planning for a three year series of "bad times" is not excessive. Another approach might be to consider the value of assets, and the cost of unplanned replacements.

A second justification for the \$1.0 Million reserve has to do with emergency or unplanned capital requirements. There are a myriad of possibilities when managing a multi-million dollar facility such as the airport. If a **major system failure** occurs, the airport must respond virtually instantaneously, otherwise airline services, and airport revenues, would be severely disrupted. By way of example, airfield lighting regulator and transformer components are known to be unpredictable towards the end of the service life of the equipment. That is, a failure can occur without warning. The Peace River Airport regulator and transformer equipment is entering the final 25% of its normal service life. Airport management has scheduled capital replacement of these components in the year 2010, which is somewhat optimistic. A proposal of this business plan is to conduct a technical review of the major systems so that a realistic long range capital plan can be established. Even with such planning it must be understood that the risk of component failures still exists, there is merely a greater confidence in the schedule for planned replacement. This type of risk management and "delay until the last possible moment" scheduling can only occur in a situation where contingency allowances are available.

As shown on the cash flow chart, the airport is actually expecting to finish the five year cycle with reserves greater than the originally planned amount of \$1.0 million, by a plump margin. Council and management should consider the merits of various options presented as a result of this advantage.

Improvements to Terminal Trust

There is an anticipated need for **Terminal Building Improvements** along a twenty year horizon. In accordance with the “not subsidized” philosophy, the airport has, from the outset, intended to self finance all capital improvements. One way to finance the terminal building expenditure would be to obtain a mortgage and make payments. The general trend of government is to move away from debt financing as much as possible. Another option would be to “save up” for the expense. After all, there is twenty years in which to plan. A combination of setting aside the estimated \$483,000 in year 2002, plus interest earned from the \$1.0 million over a twenty year period is sufficient **to completely finance that major improvement** (at today's interest rates of 3%). The Town of Peace River has entered into a number of leases and agreements with airport tenants concerning the finances of the airport. **In summary, money raised at the airport shall be used at the airport, and nowhere else.** In other words, the funds are held in trust for the long term benefit of airport users. The terminal represents a central component of the airport that could have its future assured by a set aside program within the trust (or reserve) account.

How much is “not enough” in reserve?

Town council required that a reserve be established that was adequate to ensure that ratepayers could be confident that the airport could sustain itself well into the foreseeable future. The airport has only operated in the black for one full year so it is somewhat premature to suggest reductions in the margin of safety set by Council. The \$1 Million amount is a “**Basic target**” objective for management to sustain in the fund year over year. An area of **uncertainty** at present is the quality of the preliminary estimates for capital improvements in the one to ten year interval. The author believes that a technical review should be carried out in 1998. This review should evaluate current facility conditions, estimate remaining useful service life; and, prepare some preliminary cost figures based upon engineering principles. It is premature to judge what the outcome of the technical evaluation might be, but it is the authors belief that the scope and cost of the capital plan will grow as a result of the technical reviews.

As a guideline Council should monitor the fund and seek a management explanation should the balance drop below \$ 800,000. Such an amount would represent an appropriate trigger point to begin corrective action planning.

Council are reminded that the \$1 Million basic target amount represents the contingency component of the Capital and Contingency Reserves. Capital expenditures flow from the airports' ability to gather revenue through operations. Further, the plan for capital expenditures is currently based upon a series of “educated guesses” of the likely cost for replacement.

How much is “too much” in reserve?

The concept of trying to set an upper limit on the balance available in the fund makes sense since the airport is a non-profit/non-subsidized enterprise. The reserves must not become a convenient repository for a profit. An “Upper Limit” cannot be established **today** because of the current uncertainty in capital cost estimates. When those figures are more clearly defined, sometime later this year, then this subject should be re-examined. However, the reserve will grow in the future if airport management introduce operational efficiencies, in the following areas:

- Cost reduction.
- Revenue enhancements.
- Capital expenditure delay.

All of these actions are to be encouraged by Council. Of the three factors, airport management has the most influence over the first one. That is, current operating costs controlled by management are approximately \$480,000 per year. A 20% reduction in these costs would provide the reserve with an annual gain of \$96,000. Even so, it would still take several years to accumulate a “significant” surplus. The second factor, a revenue enhancement, would be the subject of Town Council review if it involved an increase in charges to current users, and would only be implemented in the case of demonstrated actual need. Management could seek out new business opportunities, lease more area, sell more advertising and the like- but these things are very difficult to achieve and a 5% growth rate over current revenues would be exemplary performance. The third factor, a delayed capital expenditure, does not truly represent a significant contribution to an “extra” surplus because, sooner or later, the expenditure will occur.

In this context it should now be clear that if the reserve grows significantly beyond the basic target, it will only do so through a conscious and sustained effort on the part of management and Council. Such an effort would be appropriate for the Air Terminal Building upgrade, currently scheduled for the year 2020. Management are obviously already planning for this \$1 Million outlay (cost based upon an informal estimate). Should Council wisely decide to accumulate capital in advance of the expenditure then the trust account provides a mechanism for this. Under circumstances where the fund is experiencing significant growth, management should examine their objectives **over the longer time scales** to decide whether, or not, those funds should be retained in the accounts, set aside for projects that are scheduled for later on, or returned to the users.

Capital & Contingency Reserve Account (reproduced segment of previous chart)					
	1998	1999	2000	2001	2002
End of year Balance	\$ 1, 076, 535	\$ 1, 400, 689	\$ 1, 470, 313	\$ 1, 489, 706	\$ 1, 467, 285

The Air Terminal Upgrade project, selected as an example, demonstrates that advance planning could have dramatic benefits to users. To upgrade the ATB twenty years from now, an extra \$1.0 Million must be raised from users somehow. **The longer the delay in acquiring these funds, the larger the user payment will have to be.** One might well consider earmarking the predicted \$467,285 “surplus” towards the ATB project **now** and placing that figure in trust for the future upgrade work. A one time payment of \$400,000 would grow sufficiently over a twenty year span to **completely** finance the ATB upgrade expenditure without incurring any debt. In other words, users would face next to nothing in increased fees and charges over a very long time frame (both before and after the major upgrade project) if management projected the capital reserves and expenditure plans over a five to twenty year time frame.

Capital & “Right Sizing” the AOF

The “not for profit/not subsidized” caption summarized a governing philosophy for the airport takeover that Council set for management to achieve. The original business plan task involved considerable effort to establish an appropriate level for the airport operating fee(AOF). Most of this planning activity involved casting and re-casting the AOF charge at higher and lower amounts, until an “optimum” was found. A key requirement in this testing protocol was that the airport avoid an operating deficit. Hypothetically, if the airport were to run at an operating deficit, then “a subsidy” of some form would be required to make up that shortfall. On the other hand, if the airport finances were to show a sustained operating surplus year after year then the “not for profit” principal set by Council would be violated.

In 1998 and 1999 the airport will derive operating surpluses in excess of \$300,000 for each year. This amount would seem to be an excessive surplus. However, the financial statements include the effects of a federal government subsidy that, for the next three years distorts the cash flow derived from airport operations. Without that federal subsidy, the money coming from operations (with an \$8.50 per passenger AOF), would be only a very modest surplus. **In the year 2001, when there are no federal subsidies for airport operations, the surplus will be about \$ 19,000.** In the following year that surplus amount is completely eliminated by an operating deficit of about \$22,000.

On the following page a five year summary of the airport finances is presented as if the AOF were set at **\$5.00** and all other things, including the federal subsidies, were held at their currently predicted levels. **The results indicate that, in all five years under study, the airport would have an operating deficit.** The operating deficit would be underwritten by the federal subsidy money. Of this substantial subsidy only \$132,000 would remain after five years. The interest earnings from the C & CR account would be required to help finance the deficit, but despite that contribution, the principal amount of the C & CR would have to be used to offset the losses. As a result, the data indicates that a future INCREASE in the AOF would be inevitable. **A rough calculation shows that the AOF would have to double (from \$5.00 to \$10.00) in the years after 2003 to be able to afford the ATB upgrade project. Such an increase would surely result in consumer objections.**

03/07/98

**What if a \$5.00 AOF
Budget Report
January 1998 through December 2002**

	Jan - Dec '98	Jan - Dec '99	Jan - Dec '00	Jan - Dec '01	Jan - Dec '02	TOTAL Jan '98 - Dec '02
Ordinary Income/Expense						
Income						
Concessions	103,897.80	107,650.08	109,750.08	125,087.04	95,750.04	542,135.04
Rentals	93,700.08	184,580.88	171,580.92	171,580.92	83,400.00	704,842.80
Sales	10,699.80	12,754.92	12,808.92	12,808.92	12,300.00	61,372.56
Service Fees	258,799.93	258,190.08	245,300.04	255,000.12	264,000.12	1,281,290.29
Total Income	467,097.61	563,175.96	539,439.96	564,477.00	455,450.16	2,589,640.69
Expense						
CAPITAL EXPENSES	58,500.00	65,000.00	148,000.00	178,000.00	100,000.00	549,500.00
OPERATING EXPENSES	476,561.04	514,895.16	511,840.08	514,020.00	514,020.00	2,531,336.28
Total Expense	535,061.04	579,895.16	659,840.08	692,020.00	614,020.00	3,080,836.28
Net Ordinary Income	(67,963.43)	(16,719.20)	(120,400.12)	(127,543.00)	(158,569.84)	(491,195.59)
Other Income/Expense						
Other Income						
CAPITAL contrib. FUND[830]	283,208.04	202,065.00	66,231.00	37,031.04	35,409.00	623,944.08
Total Other Income	283,208.04	202,065.00	66,231.00	37,031.04	35,409.00	623,944.08
Net Other Income	283,208.04	202,065.00	66,231.00	37,031.04	35,409.00	623,944.08
Net Income	215,244.61	185,345.80	(54,169.12)	(90,511.96)	(123,160.84)	132,748.49

03/07/98

What if Emergency Response had to be added(YPE COST)
Budget Report
 January 1998 through December 2002

	Jan - Dec '98	Jan - Dec '99	Jan - Dec '00	Jan - Dec '01	Jan - Dec '02	TOTAL Jan '98 - Dec '02
Ordinary Income/Expense						
Income						
Concessions	103,897.80	107,650.08	109,750.08	125,087.04	95,750.04	542,135.04
Rentals	93,700.08	184,580.88	171,580.92	171,580.92	83,400.00	704,842.80
Sales	10,699.80	12,754.92	12,808.92	12,808.92	12,300.00	61,372.56
Service Fees	368,799.97	369,000.12	369,000.12	369,000.12	369,000.12	1,844,800.45
Total Income	<u>577,097.65</u>	<u>673,986.00</u>	<u>663,140.04</u>	<u>678,477.00</u>	<u>560,450.16</u>	<u>3,153,150.85</u>
Expense						
CAPITAL EXPENSES	58,500.00	65,000.00	148,000.00	178,000.00	100,000.00	549,500.00
OPERATING EXPENSES	614,961.00	653,295.12	650,240.04	652,419.96	652,419.96	3,223,336.08
Total Expense	<u>673,461.00</u>	<u>718,295.12</u>	<u>798,240.04</u>	<u>830,419.96</u>	<u>752,419.96</u>	<u>3,772,836.08</u>
Net Ordinary Income	(96,363.35)	(44,309.12)	(135,100.00)	(151,942.96)	(191,969.80)	(619,685.23)
Other Income/Expense						
Other Income						
CAPITAL contribut. FUND[830]	283,208.04	202,065.00	66,231.00	37,031.04	35,409.00	623,944.08
Total Other Income	<u>283,208.04</u>	<u>202,065.00</u>	<u>66,231.00</u>	<u>37,031.04</u>	<u>35,409.00</u>	<u>623,944.08</u>
Net Other Income	<u>283,208.04</u>	<u>202,065.00</u>	<u>66,231.00</u>	<u>37,031.04</u>	<u>35,409.00</u>	<u>623,944.08</u>
Net Income	<u><u>186,844.69</u></u>	<u><u>157,755.88</u></u>	<u><u>(68,869.00)</u></u>	<u><u>(114,911.92)</u></u>	<u><u>(156,560.80)</u></u>	<u><u>4,258.85</u></u>

6

Finance

Line object financial coding

The airport accounts represent an amalgam of financial administration codes inherited from the federal government; and, line object/ sub-activity codes from the Town accounting system. There are 31 individual revenue objects, but only two line objects account for more than half of all income. This leads one to question whether the tracking system is serving the needs of management, or merely providing data for some forgotten purpose. In addition, there are 71 expense objects, some of which account for minor expenses of \$50.00 or less. The airport has only part time administrative assistance, the burden of this line object coding task along with billing and payment tasks, seems quite excessive. The reporting object system should be reviewed and simplified to ensure only the items that need detailed tracking are included.

The revenue accounts and the expenditure accounts are not aligned in a format that directly matches revenues to expenses for major facilities. By way of example, landing fees should be matched, or attributable to, surface structure maintenance costs. That is, landing fees are associated with the runways and taxiways (Air side) expense. Some sub accounts of landing fee charges are actually attributable to ATB related fees. It is extremely difficult to extract information from the various object accounts and determine whether that component of the infrastructure is sustaining an economic contribution or loss.

As indicated elsewhere, the current arrangement does not conform to the guidelines of the International Air Transport Association (an airline lobby group). If the airlines were to challenge a fee or investment decision, the airport would have some difficulty in presenting rational data to support the expense allocation scheme. Further, the airlines could use the raw(misleading) data to suggest that Peace River Airport may be charging more than comparable other airports. It is strongly recommended that the line object coding system be re-cast in a simpler format and efforts made to align revenue and expense activities.

presenting rational data to support the expense allocation scheme. Further, the airlines could use the raw(misleading) data to suggest that Peace River Airport may be charging more than comparable other airports. It is strongly recommended that the line object coding system be re-cast in a simpler format and efforts made to align revenue and expense activities.

Accounting for the Federal Subsidy

There is some potential for an interpretation of the operating subsidy to interfere with Peace River Airport Capital Assistance (ACAP) grant eligibility. Transport Canada does seem to be taking an enlightened approach at the moment, but that could change, particularly when the competition for funds becomes more acute than at present. To avoid this potential a very careful accounting presentation should be placed in both documents to Transport Canada and the audited financial statements, as follows:

Accounting for MOT subsidy			
	<i>1998</i>	<i>1999</i>	<i>2000</i>
<i>Amount of contribution</i>	258,200	170,600	29,960
<i>Airport Operating costs</i>	476,561	514,895	511,840
<i>Net balance</i>	(218,361)	(344,295)	(481,880)
<i>Shortfall paid by other Town Revenues</i>	218,361	344,295	481,880
balance in operating account at year end	0	0	0

At the end of the subsidy period, the Peace River Airport must provide an audited accounting that demonstrates that the MOT funds have been consumed. The existing reporting mechanisms appear to depict the subsidy being placed directly into capital and contingency reserves, which is not the case. The audit statements provided by Doane Raymond (Schedule "C") should be reviewed to ensure there is no potential for a future loss of ACAP eligibility.

Capital And Contingency Trust reserves

The airport should project its capital requirements over a 5, 10, 15 and 20 year horizon. The capital trust portion is not restricted to serving only the next five years of need. The business plan uses this five year format as a convenience. However, there may be some public perception of unnecessarily high reserves if the fund was to rise significantly above the amounts that can be operationally justified. A trust account program could help to maintain an equilibrium in the contingency reserves while dealing with major project works that are in the longer range plans of the airport. In this way the airport operating accounts would be held at a consistent range in year over year comparisons. The trust or set aside approach would tend to avoid a future need to increase the AOF; or, organize a rebate scheme in the face of a temporary surplus etc..

How robust are the Airport Finances?

Sensitivity analysis

Sensitivity analysis is a technique where the financial projections of the airport are subjected to economic “stress” to determine how well the forecasts withstand the strain. In this hypothetical case, all airport costs were escalated by 15% for each year under review. That is the equivalent of a MONTHLY inflation rate of 1.25% for each of the five upcoming years. These figures are shown below alongside the summary of net income for the airport as it is anticipated to perform. Note that all planned capital outlays are included in the figures.

Sensitivity Analysis 1998-2002		
	<i>Anticipated in business plan</i>	<i>costs increased by 15%</i>
<i>1998</i>	\$ 334,460.65	\$ 300,292.90
<i>1999</i>	\$ 304,154.92	\$ 267,710.13
<i>2000</i>	\$ 69,625.88	\$ 33,405.32

Sensitivity Analysis 1998-2002		
	<i>Anticipated in business plan</i>	<i>costs increased by 15%</i>
<i>1998</i>	\$ 334,460.65	\$ 300,292.90
<i>1999</i>	\$ 304,154.92	\$ 267,710.13
<i>2000</i>	\$ 69,625.88	\$ 33,405.32
<i>2001</i>	\$ 19,393.04	(\$ 5,146.63)
<i>2002</i>	(\$ 22,420.84)	(\$ 59,274.47)
Net to C & CR	\$ 705,213.65	\$ 536,987.25

The details within the budgets depicted here are included in the proforma financial reports

Based upon the foregoing, the airport can weather significant increases in operating costs without economic strain.

Pro forma budget 1998 - December 2002

Note 1: The top half of each page depicts the business plan forecast.
The bottom half depicts the sensitivity analysis cost escalation of 15%.

Note 2: The bottom line “net income” represents the amount that operations would contribute towards the trust reserves.

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
January through December 1998**

	Jan - Dec '98
Ordinary Income/Expense	
Income	
Concessions	103,897.80
Rentals	93,700.08
Sales	10,699.80
Service Fees	368,799.97
Total Income	577,097.65
Expense	
CAPITAL EXPENSES	58,500.00
OPERATING EXPENSES	476,561.04
Total Expense	535,061.04
Net Ordinary Income	42,036.61
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	292,424.04
Total Other Income	292,424.04
Net Other Income	292,424.04
<u>Net Income</u>	334,460.65

**Peace River Municipal Airport
Pro Forma Budget Report
Costs 15% higher than anticipated for 1998**

03/07/98

	Jan - Dec '98
Ordinary Income/Expense	
Income	
Concessions	103,897.80
Rentals	93,700.08
Sales	10,699.80
Service Fees	368,799.97
Total Income	577,097.65
Expense	
CAPITAL EXPENSES	58,500.00
OPERATING EXPENSES	510,728.79
Total Expense	569,228.79
Net Ordinary Income	7,868.86
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	292,424.04
Total Other Income	292,424.04
Net Other Income	292,424.04
<u>Net Income</u>	300,292.90

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
January through December 1999**

	<u>Jan - Dec '99</u>
Ordinary Income/Expense	
Income	
Concessions	107,650.08
Rentals	184,580.88
Sales	12,754.92
Service Fees	369,000.12
Total Income	<u>673,986.00</u>
Expense	
CAPITAL EXPENSES	65,000.00
OPERATING EXPENSES	514,895.16
Total Expense	<u>579,895.16</u>
Net Ordinary Income	94,090.84
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	210,064.08
Total Other Income	<u>210,064.08</u>
Net Other Income	210,064.08
Net Income	<u><u>304,154.92</u></u>

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
Costs 15% higher than anticipated for 1999**

	<u>Jan - Dec '99</u>
Ordinary Income/Expense	
Income	
Concessions	107,650.08
Rentals	184,580.88
Sales	12,754.92
Service Fees	369,000.12
Total Income	<u>673,986.00</u>
Expense	
CAPITAL EXPENSES	65,000.00
OPERATING EXPENSES	551,339.95
Total Expense	<u>616,339.95</u>
Net Ordinary Income	57,646.05
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	210,064.08
Total Other Income	<u>210,064.08</u>
Net Other Income	210,064.08
Net Income	<u><u>267,710.13</u></u>

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
January through December 2000**

	Jan - Dec '00
Ordinary Income/Expense	
Income	
Concessions	109,750.08
Rentals	171,580.92
Sales	12,808.92
Service Fees	369,000.12
Total Income	663,140.04
Expense	
CAPITAL EXPENSES	148,000.00
OPERATING EXPENSES	511,840.08
Total Expense	659,840.08
Net Ordinary Income	3,299.96
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	66,325.92
Total Other Income	66,325.92
Net Other Income	66,325.92
Net Income	69,625.88

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
Costs 15% higher than anticipated for 2000**

	Jan - Dec '00
Ordinary Income/Expense	
Income	
Concessions	109,750.08
Rentals	171,580.92
Sales	12,808.92
Service Fees	369,000.12
Total Income	663,140.04
Expense	
CAPITAL EXPENSES	148,000.00
OPERATING EXPENSES	548,060.64
Total Expense	696,060.64
Net Ordinary Income	(32,920.60)
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	66,325.92
Total Other Income	66,325.92
Net Other Income	66,325.92
Net Income	33,405.32

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
January through December 2001**

	Jan - Dec '01
Ordinary Income/Expense	
Income	
Concessions	125,087.04
Rentals	171,580.92
Sales	12,808.92
Service Fees	369,000.12
Total Income	678,477.00
Expense	
CAPITAL EXPENSES	178,000.00
OPERATING EXPENSES	514,020.00
Total Expense	692,020.00
Net Ordinary Income	(13,543.00)
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	32,936.04
Total Other Income	32,936.04
Net Other Income	32,936.04
Net Income	19,393.04

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
Costs 15% higher than anticipated for 2001**

	Jan - Dec '01
Ordinary Income/Expense	
Income	
Concessions	125,087.04
Rentals	171,580.92
Sales	12,808.92
Service Fees	369,000.12
Total Income	678,477.00
Expense	
CAPITAL EXPENSES	178,000.00
OPERATING EXPENSES	538,559.67
Total Expense	716,559.67
Net Ordinary Income	(38,082.67)
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	32,936.04
Total Other Income	32,936.04
Net Other Income	32,936.04
Net Income	(5,146.63)

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
January through December 2002**

	Jan - Dec '02
Ordinary Income/Expense	
Income	
Concessions	95,750.04
Rentals	83,400.00
Sales	12,300.00
Service Fees	369,000.12
Total Income	560,450.16
Expense	
CAPITAL EXPENSES	100,000.00
OPERATING EXPENSES	514,020.00
Total Expense	614,020.00
Net Ordinary Income	(53,569.84)
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	31,149.00
Total Other Income	31,149.00
Net Other Income	31,149.00
Net Income	(22,420.84)

03/07/98

**Peace River Municipal Airport
Pro Forma Budget Report
Costs 15% higher than anticipated for 2002**

	Jan - Dec '02
Ordinary Income/Expense	
Income	
Concessions	95,750.04
Rentals	83,400.00
Sales	12,300.00
Service Fees	369,000.12
Total Income	560,450.16
Expense	
CAPITAL EXPENSES	100,000.00
OPERATING EXPENSES	550,873.63
Total Expense	650,873.63
Net Ordinary Income	(90,423.47)
Other Income/Expense	
Other Income	
CAPITAL contribut. FUND[830]	31,149.00
Total Other Income	31,149.00
Net Other Income	31,149.00
Net Income	(59,274.47)

Capital replacement plan-Equipment(1998 \$)-preliminary estimates only

<i>year</i>	98	99	00	01	02	03	04	5	6	<i>future</i>
<i>tar kettle</i>	16000									
<i>½ ton</i>	20000									
<i>plow blade</i>		30000								
<i>runway sweeper</i>			135000							
<i>3/4 ton truck</i>				20000						
<i>tractor</i>				59000						
<i>Batwing mower</i>				15000						
<i>3 ton truck</i>				57000						
<i>snow blower</i>							135000			
<i>plow truck</i>										117000
<i>JD loader</i>									148000	
<i>Riv fire truck</i>										250000
<i>champion grader</i>										157000
Total	36000	30000	135000	151000			135000		148000	524000

infrastructure replacement schedule-preliminary estimates only										
	98	99	2000	01	2002	03	04	05	06	future
<i>ATB doors</i>	12000									
<i>ATB HVAC</i>			20000							
<i>ATB roof rehab</i>					90000					
<i>parking lot overlay</i>							201000			
<i>Emergency power</i>								70000		
<i>water pumphouse</i>										30000
<i>sewer & waterlines</i>										469000
<i>cafeteria eqpt.</i>								70000		
<i>ATB upgrade</i>										1000000
<i>Mtce. Garage upgrade</i>										50000
<i>Dup-lex</i>										80000
<i>Sub Total</i>	12000		20000		90000		201000	70000	60000	1629000
<i>Equipment Sub Total</i>	36,000	30000	135,000	15000			135,000		148,000	524,000
<i>col-umn total</i>	48,000	30000	155,000	151000	90,000	0	336,000	70,000	208,000	2,153,000

infrastructure replacement schedule-preliminary estimates only										
	98	99	2000	01	2002	03	04	05	06	future
Grand total										3,241,000



This confidential component of the business plan is intended to prepare the airport management and Council for the implications of a second airline entering the local market. The entire scope is quite speculative and the assumptions would require adjustment/validation before negotiations progressed very far. Basic assumptions are that the new proponent, "Airline W," will be a discount carrier operating Boeing 737 aircraft. For forecasting purposes it is assumed that the carrier will offer ticket prices at approximately 50% of the current full fare. There are at least two potential scenarios anticipated for a new airline entrant:

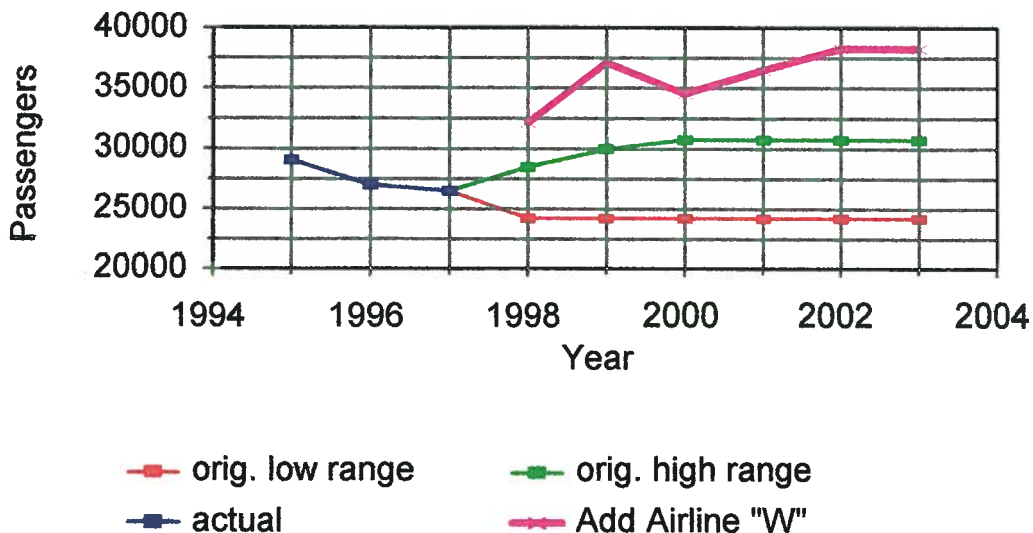
- **Market Test/infrequent schedule.**
- **Normal Competition.**

The latter scenario is the most attractive to the airport. However, it is far more likely that a new airline operator will provide an infrequent schedule with a once per week schedule.

Market test/Inaugural or infrequent schedule conditions:

In this scenario a new operator would come to the airport on the basis that they really aren't sure if the market can sustain their efforts. Therefore the airline provides notice of a seasonal or limited schedule with a review to occur in a few months. The cautious approach is quite valid but demand can be highly elastic on the basis of price ¹. In other words, the airline proponent can exert considerable control over the degree of demand actually experienced. If the assumed discount ticket price was offered, then the "market test" would result in a sustained

Airline "W" Scenario



¹Refer to original business plan for a description of the price/demand effects experienced in the American Market.

virtually permanent, increase in demand. A one day per week schedule would have very limited impact upon Canadian Regional Airlines because the majority of their passenger demand comes from business, government, and "short notice" travellers. Airline "W" passengers would comprise mostly of excursion travellers. In other words an entirely different market segment would be stimulated into using air transport as an alternative to the automotive mode.

Airline "W" Scenario		
<i>Forecast Year</i>	<i>Orig. Plan Estimate</i>	<i>Second Airline Revised Est.</i>
1998	27,000	32,148
1999	26,838	37,134
2000	24,260	34,556
2001	26,200	36,496
2002	28,000	38,296

The Canadian Regional Airlines share of the total market would drop from almost 100% to approximately 70%. It is quite likely that Canadian would attempt to capture a component of the excursion market segment by offering lower rates on a limited seat basis.

Airline "W" Scenario -Financial Changes			
<i>Charges</i>	<i>CRA</i>	<i>"W"</i>	<i>Airport</i>
<i>Landing Fees</i>	N/C	+ 7,904	+7,904
<i>AOF</i>	-72,000	+72,000	N/C
<i>GTF</i>	-15,000	+15,000	N/C
<i>Space Rent</i>	N/C	+19,500	+19,500
<i>Acft parking</i>	N/C	N/C	N/C
Total	- 87,000	+114,404	+27,404

These figures translate into a cost savings of \$3.24 per passenger for Canadian Regional Airlines; a cost of \$11.21 per passenger for Airline "W"; and an increase in gross revenues of \$0.71 per passenger for the airport. Canadian Regional Airlines current passenger revenues, attributable to Peace River Airport, are believed to be near \$6.0 million. The upstart airline "W" would garner total revenues of approximately \$2.0 million from Peace river airport. **Clearly the airport derives an inequitably small proportion of improvement in financial position.** Any gains in the first year of operation would unquestionably be liquidated by capital improvements to accommodate the upstart airline. Subsequent gains would be eroded by the increased wear and tear on the ATB structure and components; increased janitorial and O & M costs; increased burden on heating and ventilating systems translating into increased energy costs.

Pricing options

An airline doing market testing or providing commitment for only one schedule cycle should be subject to an automatic surcharge, say \$1,000 per month of operation, minimum of \$6,000 payable up front. This surcharge would be a Temporary Terminal Occupancy Charge(TTOC). The surcharge could be made partially refundable if a more permanent arrangement materializes within a specified period. Failing that, the TTOC would go to the Capital and Contingency Reserve account. The TTOC is set low enough to avoid being a serious disincentive to the new entrant; and, high enough to recoup all of the hidden Operating and Maintenance costs involved in setting up a new business within the ATB.

Normal course new entrant:

In this scenario, the new entrant provides a show of commitment for a longer time frame, such as a five year lease term and so on. The new airline should be encouraged to make a sustained commitment to the community. Where a new entrant arrives, willing to enter into a five year lease, the TTOC mentioned above should be collected for the first six months; then progressively returned over the remaining lease term.

About the Author:

Jim Slavin has been working with the Town of Peace River on revenue enhancement and Business Planning activities since 1992. This work culminated in the 1996 business plan that set out a framework for the transition of the airport from Federal control to local control.

Jim has over 22 years of airport experience including Pearson International and Edmonton International as well as performing numerous projects at airports throughout Western and Northern Canada. This experience has included operational, environmental remediation, major capital project delivery, and business development activities. He presently works for Day & Zimmermann Infrastructure Inc., a large american based company involved in many international airport projects.

Jim possesses a bachelor of commerce degree and is an accredited airport executive.