

POSSIBLE MOTION

I MOVE TO approve Ordinance 2017-29S on
second and final reading.

MEMORANDUM

To: Mayor Hunter and Members of the Assembly
Phillip Messina, Interim Municipal Administrator

From: Michael Harmon, P.E., Public Works Director *MH*
Dan Tadic, P.E., Municipal Engineer *DT*
Jay Sweeney, Chief Finance and Administrative Officer *J*
Kelli Cropper, MPM, Project Manager *KE*

Reviewed: Tori Fleming, Contract Coordinator *T*

Date: August 2, 2017

Subject: Sitka Rocky Gutierrez Airport (SIT) Terminal Improvements - Approve moving forward with the project and the budget appropriation of the existing PFC funds to project budget

Background:

The final conclusions of the most recent SIT Airport Terminal Master Plan -2011 were twofold:

- Short term- correct the most critical terminal deficiencies.
- Long term- develop a long-term financial plan in order to construct a new terminal at the Sitka Rocky Gutierrez Airport.

The estimated cost of designing and constructing a new 35,000 square foot terminal ranges from \$30 - \$40 million. Procuring this funding has proven thus far to be impracticable and is unlikely in the near future given Alaska's current fiscal crisis.

In 2016 the CBS received a design grant from the Transportation Security Administration (TSA) for the Baggage Screening Area. Stakeholder representatives from TSA, Alaska Airlines, Delta Airlines, Terminal Vendors, CBS Staff, and the Design Consultants met regarding the upcoming baggage area design and many of the other existing critical terminal inadequacies were raised and discussed. Since the alterations to the baggage screening area would impact the other critical terminal areas, it was decided that a conceptual floor plan for the full terminal needed to be developed before design for the baggage screening continued.

In March 2017 the Assembly approved preparation of new application to collect PFCs to fund SIT Terminal Improvements. As stated then, the next steps were to prepare a preferred concept plan and preliminary funding plan with stakeholder input and bring them back for Assembly approval in order to move forward with the project.

Analysis:

Over the last four months, a preferred conceptual floor and funding plan have been developed. Small Group Stakeholder meetings were held with our Consultants and concept plans and options discussed. The preferred option was presented at a public meeting July 20, 2017 where we received overall support for the preferred concept plan, and received suggestions for additional improvements.

The current planning effort addresses improvements to the terminal to address current critical issues and balance the technical, operational and passenger experience needs of the facility. Areas of focus include:

- Baggage Makeup / Outbound baggage processing
- Baggage Screening
- Departure Lounge (Holdroom) size
- Concourse Congestion and passenger flow issues
- Baggage Claim Congestion

The proposed concept plan includes critical improvements to these areas utilizing the existing terminal infrastructure to the maximum extent to reduce project costs. The project cost for the preferred concept option is estimated at \$10.7 million.

With Assembly approval of the conceptual plans the project can move forward to the 65% design milestone and the TSA Baggage Screening design work can resume before the \$158,569.25 design grant expires. At that time, the design will be sufficient to more accurately estimate projects costs and funding sources will be identified.

The project strategy is to build to the budget, once the budget is established. If the required funding to construct the full project is not secured, a portion of the project will be identified through the design and public process, for design completion and construction with the funds available. Any remaining unconstructed portions (future phases) will remain at 65% design for future 'shovel ready' projects for which we will seek funding, such as any AIP Discretionary Funds that become available.

Project Schedule:

- Assembly Approval and Budget Appropriation- August 2017
- Design Development Completion January 2018
- Construction/Bidding Document Completion June 2018
- Bidding and Award July – September 2018
- Construction – phased during winter seasons October – April 2018, 2019, 2020

Fiscal Note:

The intent of staff is to identify and obtain funding to correct critical deficiencies in the existing terminal while not burdening the local tax base. For potential funding sources identified to date see the attached AvAirPros draft funding plan memorandum, dated July 27, 2017. These and other possible funding sources will be investigated leading up to the 65% design milestone.

Existing remaining unappropriated PFC funds amount to \$280,593 and are only permitted to be used for the terminal projects and are considered part of the funding plan. Additional design scope will be required to develop and complete the design, construction, bidding documents, and funding plan. It is anticipated that the cost to get the project to the 65% design milestone will be roughly \$240,000, at which time the Assembly will see the project again to move it forward.

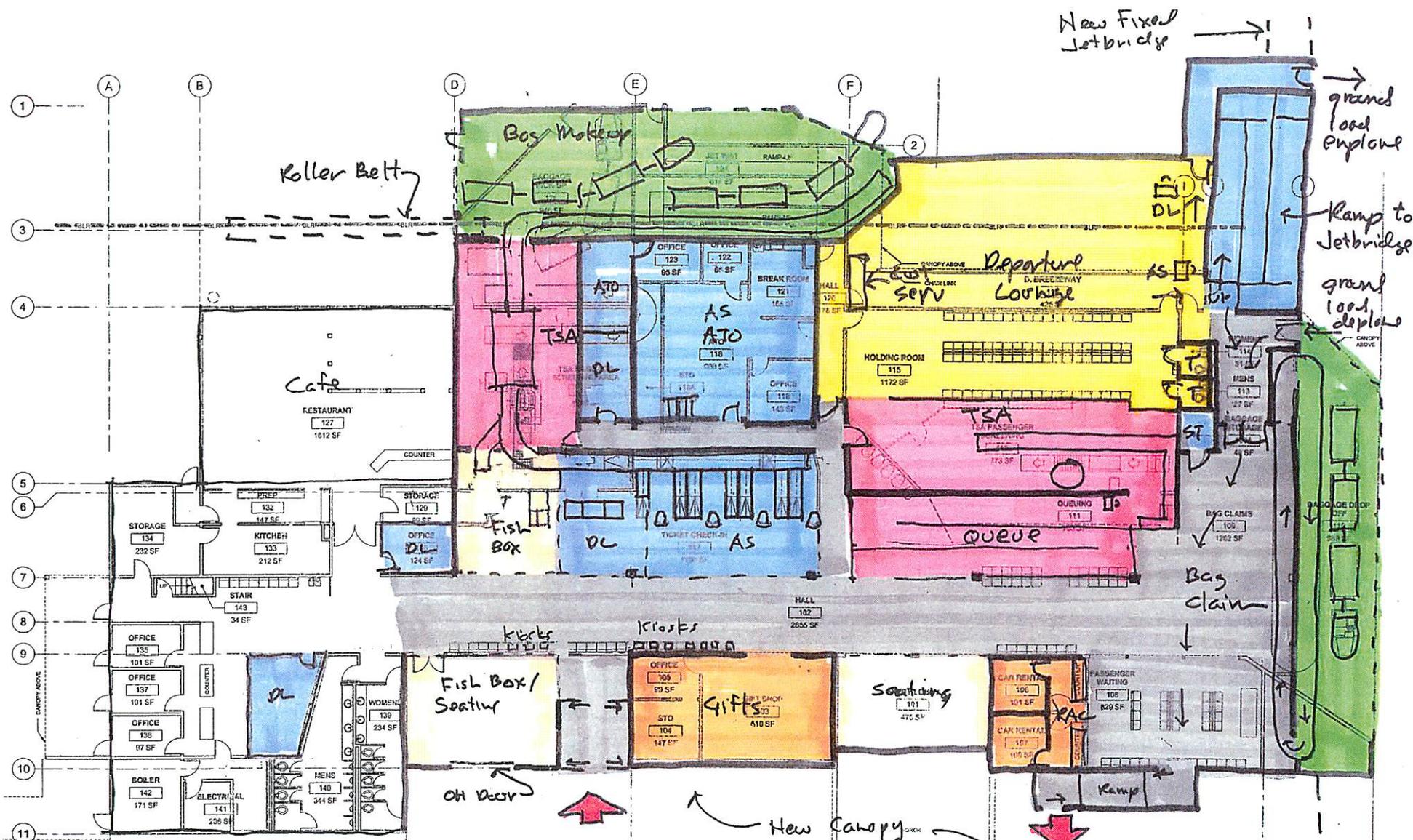
Foundational discussions concerning project financing have taken place between the Public Works Department, Finance Department, and a financial Consultant, AvAirPros. In these discussions, various options and courses of action for project financing have been discussed and analyzed.

A formal financing plan is premature at this point, as it will be dependent on the scope of the project. Central to any financing plan will be the collection of passenger facility charges (PFCs), as PFCs will be the primary mechanism for paying for construction costs, or, for paying for debt service if debt financing is ultimately approved. Securing debt financing to immediately commence construction, and, using fees and charges to pay for debt service is in the conceptual finance plan.

Potential funding sources which have been identified and discussed include PFCs, possible implementation of a surcharge on rental cars (terminal improvement fees), possible grants from Federal and State sources through discretionary Airport Improvement Program (AIP) funds, and possible grants from the TSA. Matching requirements for AIP and TSA grants are unknown at this time.

Recommendation:

Approve moving forward with SIT Terminal Improvements Project development as presented and appropriate the remaining \$280,593 of PFC funds to the project #90736.



Concept C4
 4/25/17 Phase 4
 Final

scale 1/4" = 1'-0" @ 11X17 sheet



PREFERRED CONCEPT PLAN

MEMORANDUM

Date: July 27, 2017

To: Kelli Cropper, The City and Borough of Sitka

From: Kottayam V. Natarajan Jr.

cc: Alex Fedor

Subject: Sitka Rocky Gutierrez Airport **DRAFT 7-27-2017**
SIT Airport Terminal Improvements Project Funding Plan

This memo describes the preliminary Funding Plan for the Airport Terminal Improvements Project at the Sitka Rocky Gutierrez Airport. The Funding Plan is attached as Exhibit 1.

The information below refers to the notes on the Funding Plan.

Notes on Project Cost Assumptions

1. A 20% Design Contingency has been added to all the construction cost estimates due to the preliminary nature of the estimates. This contingency can be adjusted as the cost estimates become more firm.
2. A 25% soft cost estimate has been added to the escalated construction costs to account for design, project/construction management, inspection, and administration of the project, for a total project cost estimate.

Notes on Funding Sources and the Funding Plan

3. **PFC Future Collections** **\$4,000,000**
This revenue stream is based on future Passenger Facility Charge (PFC) collections at \$4.50 per passenger. It assumes the PFCs are leveraged to pay the annual debt service on 20 year bonds with 5% interest. The FAA must approve the Airport's PFC application to impose and collect the PFCs from passengers. PFCs are common at airports and most charge the full \$4.50 amount.

The application process is underway and an application has been submitted to the FAA. See Exhibit 2 for more details on the PFC collections and projected revenue.

4. **PFC Existing** **\$333,500**
This is PFC money previously collected by the Airport. The City and Borough of Sitka Airport Terminal Fund Income Statement for the twelve-month period from July 1, 2016 to June 30, 2017 indicates the airport has \$10,330.02 in working capital in account 90736 – Airport Baggage and TSA Facility PFCs, and \$323,179.93 in Undesignated Passenger Facility Charges. It is assumed that all of these funds are available for the Terminal Improvements Project. The FAA should have no issues with using these funds for PFC eligible projects.

It is assumed no action is necessary to use these funds.

5. **Undesignated Working Capital** **\$363,000**
The City and Borough of Sitka Airport Terminal Fund Income Statement for the twelve-month period from July 1, 2016 to June 30, 2017 indicates the airport has \$541,827 available in Undesignated Working Capital. This is approximately 570 Days Cash on Hand (DCOH) or 1.5 years. This could be dropped down to 6 months DCOH which would free up 2/3 of the Undesignated Working Capital or 363,000. These funds are applied to the Terminal Improvements Project.

It is assumed these funds are available for airport projects and no action is necessary to secure this funding, apart from concurrence from the appropriate airport financial advisors.

6. **TSA Funding** **\$2,925,000**
The elements of the project that are associated with renovating and updating the TSA baggage screening area are assumed to be funded 100% by the TSA. The TSA has traditionally funded baggage screening projects.

The project team will need to secure a commitment from the TSA for the baggage screening elements of the project. Federal funding is not guaranteed and is always subject to changes in federal policy and funding availability.

7. **Airline Funding** **\$0**
The project includes some tenant improvements that are assumed to be funded by Alaska Airlines and Delta Air Lines. These are project elements that are closely related to individual airline operations. At most airports, projects cover all costs except for proprietary costs. Proprietary costs are specific to an airline and cannot be used by another airline. For example, a backwall behind a ticket counter and a ticket counter position would be project costs as these elements could be used by any airline. A sign on the backwall for “Airline X” and ticket counter processing equipment that is specific to Airline X and can only be used to process their passengers would be considered proprietary.

The airlines have voiced concerns over these costs not being funded by alternative project funds. Further discussions will be required to ensure the airlines are willing to contribute these amounts.

8. Tenant Concessions **\$0**

To the extent there are any project costs to improve airport concessions or to enable airport concessions, these could be funded by the airport concessionaires who will benefit. It is typical for airports to provide shell space for concessionaires and for concessionaires to pay for any build out of their space.

As the project is further developed, this may be a source of funds to pursue.

9. CBS Funding (RCTIF) **\$1,400,000**

This assumes the CBS institutes a Rental Car Terminal Improvement Fee (RCTIF) of 10% on all gross rental car receipts. Rental car receipts are projected to be \$1,200,000 per year based on FY2016 receipts of \$1,282,637 and FY2017 projected receipts of \$1,788,305. The projected \$120,000 per year from the RCTIF is leveraged to cover annual debt service on \$1.4 million of 20 year bonds at 5%. The current project funding plan assumes \$1,400,000 is needed for the project. See Exhibit 3 for more details on the RCTIF and revenue projections. Fees and charges to rental car transactions are very common at airports. These fees often run as high as 100% (e.g. the per day cost of a rental car is twice the advertised price). These fees include everything from stadium taxes to rental car customer facility charges to airport concession fees to city taxes.

The CBS will need to institute this new fee and work with rental car companies to collect and remit the fee. There is currently a 4% Driver Facility Charge that is collected on rental car receipts and used for general airport O&M. This would be in addition to that fee.

10. AIP Entitlement Grants **\$2,400,000**

SIT receives Entitlement Grants from the FAA on an annual basis for eligible projects. The 2017 AIP Entitlement Grant for SIT was \$607,027. Four of these annual grants would be \$2,400,000. However, the current funding plan assumes the Terminal Improvements Project will need 3 of the grants and that they remain approximately \$600,000 dollars. AIP Entitlement Grants are available for any eligible projects.

The project team will need to work with other jurisdictions that operate portions of the airport to ensure these grants will be available for the Terminal Improvement Project. Traditionally they have been used for the airfield, which is owned and operated by the State of Alaska.

11. Other Airport Funds **\$0**

These would be funds from airline rates and charges or from non-airline tenant fees.

Examples would be a new parking fee or increased terminal rental rates. They could be from existing rates and fees, increases to fees, or new fees. The current funding plan does not have any revenue from this source.

If the airport decides to use revenue from this source it will need to earmark funds or increase fees and ensure there is adequate funding for O&M expenses.

12. Discretionary AIP Grants **\$0**

Every year the FAA awards discretionary grants for eligible projects. The current funding plan does not include any resources from AIP Discretionary Grants as the Terminal Improvements Project would be fairly low on the priority list. Airfield projects are generally more likely recipients of AIP Discretionary Grants.

The Airport would need to apply for any AIP Discretionary Grants if it was determined that was a funding source worth pursuing.

Passenger Facility Charge 7/27/17

Sitka Airport Terminal Improvements Project

PFC Revenue

	Annual ENPL	X	PFC	=	Annual PFC REV	-	PFC admin FEE	=	NET REV
AS	71,000								
DL	5,000								
Other									
TOTAL	76,000		\$4.50		\$ 342,000		\$ 8,360		\$ 333,640

Debt Service Costs

Bond sizing	4,157,892	5% ¹
Term	20	
Rate	5.0%	
Payment	\$333,640	
coverage level	0%	
Coverage	\$0	
Total Debt Service costs	\$333,640	



Any assumption in a green box can be changed. If you change anything, click on the blue button and the Capital Capacity will recalculate.

Capital Capacity

\$ 3,959,897

Check

Calc \$0

NOTES

1 Assumes a rolling coverage account equal to 25% of an annual payment

Rental Car Terminal Improvement Fee 7/27/17
PFC Revenue

Sitka Airport Terminal Improvements Project

	Annual ² Sales	X	RCTIF ¹	=	Annual RCTIF REV	-	RCTIF admin FEE	=	NET REV
AVIS	1,200,000								
Other	-								
Other	-								
TOTAL	1,200,000		10%		\$ 120,000		\$ -		\$ 120,000

Debt Service Costs

Bond sizing	1,495,465	5% ³
Term	20	
Rate	5.0%	
Payment	\$120,000	
coverage level	0%	
Coverage	\$0	
Total Debt Service costs	\$120,000	



Any assumption in a green box can be changed. If you change anything, click on the blue button and the Capital Capacity will recalculate.

Capital Capacity

\$ 1,424,253

Check

Calc \$0

NOTES

- 1 Rental Car Terminal Improvement Fee
- 2 Driver Facility Charge *4% from Kelli*
 - 2016 YTD total DFC \$ 51,305 *income statement*
 - 2016 YTD gross \$1,282,637 *calculated*
 - 2017 2nd QRTR \$ 35,766 *income statement*
 - 2017 projection \$1,788,305 *calculated*
- 3 Assumes a rolling coverage account equal to 25% of an annual payment