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Airports try creative ways to generate revenue

General aviation and commercial airports are continually faced with the challenge of doing more with fewer dollars. Add to that the increasing costs of construction, reduced public funding, and periodic economic downturns, and it's easy to understand why airports need to be creative when seeking additional ways to generate revenue.

In the past, the primary sources of airport revenue have been fuel sales, hangar leases, and agricultural leases and grants. The information that follows is meant to help you consider other resources your airport might possess that could generate additional revenue.

Airport land is an asset

Airport operators control if and how the land on an airport is developed. Some potential ideas for both new and existing projects:

- Evaluate existing lease agreements and perform condition reviews as those agreements expire and as facilities revert back to the airport. Make improvements as needed to ensure your land or facility is attractive to new tenants.
- Financing a new project at a public airport on leased land can be challenging, especially when this is a new idea, or at airports with less available property. Consider the benefits the airport can offer a potential builder.

Above all, any development should benefit the airport. A good first step is to talk to other airport managers to hear what they are doing and share information. (AirTAP can be a good clearinghouse for those ideas and a place to network.) In addition, solicit existing tenants and airport users for ideas.

Leasing and use agreements

Small airports employ many types of airport leasing and use agreements—for commercial and non-commercial operations, and for aviation- and non-aviation-related operations such as manufacturing, warehousing, freight forwarding, and farming on airport land. Commercial land use should be carried out through coordinated planning efforts, mindful of FAA restrictions on development.

Regardless of the type of lease, the application and enforcement must be consistent. Airport sponsors of federally obligated airports must also ensure that certain grant obligations are met.

Following are other considerations for developing innovative leasing arrangements:

Minimum standards. For commercial operations based at GA airports, the airport operator normally enters into a lease arrangement with a commercial operator that outlines criteria—which must be reasonable and fair—for the business operation. Airport operators must ensure that the opportunity to engage in commercial aeronautical activities is available to any person or business that meets reasonable minimum standards established by the airport sponsor.

Rules and regulations. The FAA also recommends that the airport owner establish rules and regulations for the safe, orderly, and efficient operation of the airport. Rules and regulations apply to all persons using the airport for any reason. Like minimum standards, they should be tailor-made for individual airports. Federally obligated airport operators are required by grant assurances to establish and enforce fair, equal, and not unjustly discriminatory airport rules and regulations.

Rates and charges. Airport operators must establish rates and charges for the use of airport property, equipment, facilities, services, and buildings that help offset the cost of operating the airport and won't result in a revenue loss. Even locally, no set guidelines or standards specify what individual airports should charge tenants, but rates should reflect the cost of providing the facility or infrastructure as well as maintaining and administrating it, recovering capital expenditures, and any other costs associated with airport operation. It's not always practical, however, to charge users for only those facilities they use or services they receive. Many airport users also benefit from common-use areas of the airport as well as airport-maintained airside facilities and navigational aids. An airport operator can establish rates for common-use areas such as terminal, airfield, and buildings and grounds charges.

Terms and conditions. Airport lease

Revenue continued on page 2

Revenue continued from page 1

agreements should specify permitted uses and premises to be leased, rental rates and payments, the responsibilities of each party, required insurance, rules about sub-leasing, and provisions for termination. Federal sponsor requirements, such as language pertaining to nonexclusive rights, use of airport, non-discrimination, and airport commitments to federal or state agencies, should be included.

FAA guidelines

Any type of revenue generation should comply with FAA guidelines, and all revenue must remain with the airport that generated it to help support its facilities. The FAA's written policy on revenue spending covers fees, rents, charges, and payments from aeronautical users, tenants, and businesses on the airport; revenue from sponsor-owned property off airport; all revenue from non-aeronautical activities; revenue from the sale of minerals/mineral rights and agricultural leases; proceeds from the disposal of airport property; and state or local taxes on aviation fuel.

Prohibited uses of airport revenue

- Direct or indirect payments that exceed the value of services/facilities provided
- General economic development
- Promotions and marketing activities unrelated to airports
- Loans at less-than-prevailing interest rates
- Unrelated community activities
- Land rental for non-aeronautical purposes at less than fair market value
- Rent-free land use
- Direct subsidies to air carriers
- Payments based on an inconsistent cost allocation formula
- Impact fees that exceed the value of services provided

Additional resources

- *ACRP Synthesis 1: Innovative Finance and Alternative Sources of Revenue for Airports*
- *ACRP Synthesis 19: Airport Revenue Diversification*
- ACRP 01-15: Assessing and Implementing Innovative Revenue Strategies—A Guide for Airports (in production)
  Note: Airport Cooperative Research Program (ACRP) publications are available at www.trb.org/ACRP/ACRP.aspx.
- AOPA Frequently Asked Questions about Developing Minimum Standards (http://www.aopa.org)
- Sample minimum standards are available; e-mail Ann Johnson, AirTAP staff, at johns421@umn.edu for links to these.

An Airport's Story: Bemidji Regional Airport

Located just outside of Bemidji, Minn.—a town of nearly 14,000 people—the Bemidji Regional Airport covers an area of 1,740 acres and is owned and operated by the Bemidji Airport Authority.

The airport began as a 160-acre all-way field dedicated in 1932 and added commercial service in 1952. Formerly known as the Bemidji/Beltrami County Airport, it had a total of 13,251 operations in a 12-month period ending in October 2013—the majority of which were general aviation. Each day, Bemidji Regional Airport offers multiple flights to Minneapolis-St. Paul through Delta Airlines.

Former airport manager Harold Van Leeuwan retired in mid-December after serving 11 years in his position. He says the Bemidji Regional Airport is one of the most capable airports in the state and can handle a wide variety of aircrafts under extreme weather conditions.

"It's a very efficient airport that's able to function in the climates up here very effectively," Van Leeuwan says.

Throughout his time at Bemidji Regional Airport, Van Leeuwan says the airport had been nearly completely renovated, and that almost $30 million had gone into the project.

"The airport was reaching the end of its life expectancy as far as infrastructure and capability," he says. "It was going to have to change, and we did that."

Part of the renovation project included the removal and replacement of the airport's two asphalt runways. The nearly 20-year-old terminal was renovated and almost doubled in size, and the airport's weather reporting system was upgraded.

One of Van Leeuwan's first tasks as airport manager was to help create legislation that would allow airports in Minnesota to be owned and operated by airport authorities rather than municipal agencies, which he says allows financial operations to be more stable and self-sustaining. The Minnesota Legislature passed the bill and in 2009 the airport transitioned into the ownership of the Bemidji Airport Authority, a five-member committee with independent funding responsibilities.

Some of the biggest changes affecting small airports are shifts in aviation operations. Van Leeuwan says pilots are increasingly changing from hobbyists to professionals, and leisure trips are becoming business trips as the cost of airplanes continues to rise.

"The hours flown are increasing, but the number of operations are decreasing," he says. "That tells you that flights are no longer a hobby, they're professional business trips."

Bemidji Regional Airport

Van Leeuwan says that as the priorities of airports become profit-oriented, the next round of Bemidji Regional Airport leadership will most likely focus on how to foster economic development of the airport rather than physical development.

Van Leeuwan, who plans to work as an airport management consultant in Tennessee, says the most rewarding part of his 11 years at the Bemidji Regional Airport was overseeing the airport's improvements.

"I enjoyed the opportunity to improve the airport and to serve the community," he says.

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