

California Aviation System Plan

Financial Element

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PURPOSE OF THE FINANCIAL ELEMENT

The purpose of this Financial Element is to identify all possible sources of funding for aviation projects. The development of a plan or course of action is only one step in the process of achieving a desired goal or result. Without the means to finance such efforts, a plan would never be implemented. Without an idea as to the financial resources available to finance aviation projects, the desired goal of a more efficient and comprehensive aviation system cannot be achieved. Only when there is a clear picture of the funding situation can projects be engineered or constructed and equipment purchased. Thus, without an understanding of the financial situation, funding priorities can never be realistically set.

The Financial Element describes the funding picture for the aviation community in California. It describes in detail the federal, state, and local funding programs. In looking at past, current and future trends, it is clear that airports can no longer rely on the long term availability of federal funds to finance capital projects. There are a myriad of issues facing the airport manager in the 1990s. However, the problem that overwhelms all others may be revenue generation and how to make up for shrinking Federal funds. State funds have always been limited and it is unlikely that situation will change. For these reasons, this Financial Element discusses more innovative approaches to financing such as private and non-traditional sources. Although this element is general in nature, it is hoped that the various funding sources will be viewed as a "system of funds" whereby the aviation community can leverage scarce resources in such a way so as to maximize their capital improvements.

The Financial Element is part of the California Aviation System Plan (CASP). It was developed in phases and refined over time so that it could be completed at the same time that the rest of the CASP elements are completed in the Spring of 1998.

I. FEDERAL FUNDING

A. Background

One of the most difficult financing problems facing Congress and the administration over the past several years has been how to adequately fund the Federal Aviation Administration (FAA) over the long term. Improvements to the safety and security of our aviation system are badly needed. If aviation's future includes larger aircraft with heavier payloads and wider wingspans, airports may be faced with considerably greater upgrade costs.

In recent years, there have been a myriad of proposals for how to fund the FAA and the Airport Improvement Program (AIP). Aviation programs are, in large part, supported by fees that the aviation user pays. A coalition of the nation's largest airlines advocates replacing the airline ticket tax with usage-based fees. This proposal would increase the taxes paid by low-fare and small airlines and decrease the taxes paid by the coalition airlines. Other financing alternatives include taxing departures, passenger enplanements, seats flown, or some combination. However, the impact of any one alternative on the competing airlines will vary. For example, a tax on enplanements would be greater on short haul, commuter and regional airlines. The United States General Accounting Office (GAO) reported that a fuel tax would have the least competitive impact. Private pilots and business aviation would likely feel no additional pinch if Congress levied a 42.5 cent per gallon tax on jet fuel since they already pay excise tax on avgas and Jet A fuel. However, the major carriers may oppose any fuel tax proposal.

B. Legislative History

Appendix "A" briefly outlines federal aviation legislative history. The Airport and Airway Development Act of 1970 established the Airport and Airway Trust Fund. The Trust Fund pays for AIP grants; makes funds available to FAA to operate the air traffic system, including purchasing facilities and equipment; funds research, engineering and development activities; and pays about 50 percent of the costs to operate and maintain air traffic facilities. The sources of revenue and rates for each of these tax sources are summarized below.

AIRPORT AND AIRWAY TRUST FUND TAX RATES: 1982-1995

<u>Tax Source</u>	<u>1982</u>	<u>1987</u>	<u>1990</u>	<u>1991-95</u>
Passenger Ticket	8%	8%	10%	10%
Intl Departure (per enpl)	\$3	\$3	\$3	\$6
GA Gasoline (cents/gal.)	\$.12	\$.12	\$.15	19.4 cents*
GA Jet Fuel (cents/gal.)	\$.14	\$.14	\$.17.5	21.9 cents*
Cargo tax	5%	5%	2.5%	6.25%

*Includes the \$0.043/gal. excise tax on jet fuel and aviation gasoline. Used for deficit reduction and deposited into the General Fund.

In January 1996, authority to collect those taxes and transfer them to the Trust Fund expired due to a delay in reenacting the authority. Consequently, tax revenues in FY 1996 were \$2.4 billion compared to \$5.8 billion in 1995⁽¹⁾ causing the Trust Fund to be “spent down” because no new revenues were coming in to pay for FAA operations. In the **Federal Aviation Reauthorization Act of 1996**, the excise taxes were reinstated for 18 months. Other provisions of the Act include:

- The FAA’s major programs were reauthorized for two years;
- 1997 Congress appropriated \$1.460 billion for the AIP (versus \$2.280 billion authorized);
- Reliever and nonprimary commercial service airport funding categories were eliminated and incorporated into state apportionment funds;
- The system planning set-aside was eliminated. System Planning projects must now compete with capital projects for discretionary or state apportionment moneys;
- Passenger and cargo entitlements decreased;
- An airport privatization pilot program was established.
- A two-year innovative financing demonstration program for no more than 10 projects will be set up by the FAA;
- The State Block Grant Program became permanent and was expanded but California was not one of the states chosen to participate.

On August 5, 1997, the Taxpayer Relief Act of 1997 was signed into law by the President imposing new aviation taxes effective October 1, 1997 to September 30, 2007. The current general aviation fuel taxes and air cargo waybill will remain in place, while the international airline taxes will increase and the domestic airline taxes are restructured into a combination ad valorem/flight segment tax. The bill includes \$33 billion in aviation taxes over five years, almost \$4 billion more than current law. Other provisions of the bill:

- Phases in over about 5 years a 7.5% passenger ticket tax - down from 10%;
- Phases in a head tax for each flight segment: \$2.50 in 2000; \$2.75 in 2001; \$3 in 2002;
- Doubles the international departure tax to \$10;
- Imposes a new \$12 international arrival tax;
- Imposes a \$1 segment tax.

A report issued by the National Civil Aviation Review Commission concluded that FAA funding should be protected from arbitrary “caps” imposed by lawmakers. The report also concluded that federal spending on airport improvements should be at least \$2 billion a year rather than the \$1.7 billion authorized over the next five years starting in 1998.

1. FAA Annual Report, 1996, p. 15.

C. Impact on AIP

Tables 1a and 1b show a comparison of the funding distributions for FFY 1990 to 1997. Changes in the AIP apportionment are evident over the years. AIP apportionment reached a peak in 1992/1993 and then steadily declined. Passenger entitlements decreased 49% in 1996 compared to 1991 levels. Figure 1 graphically compares the Federal reauthorization acts of 1991 and 1996. Although it doesn't show up as dramatically as passenger entitlements, reliever airports have experienced the greatest decline in funds from \$180 million in 1991 to \$48 million in 1996, a 73% decline.

Federal Airport Improvement Program (AIP)				
(figures in millions)				
	<u>FFY 90</u>	<u>FY 91</u>	<u>FFY92</u>	<u>FFY93</u>
<u>Total AIP Appropriation</u>	<u>1425</u>	<u>1800</u>	<u>1900</u>	<u>1800</u>
<u>Authorized Amount</u>	<u>1700</u>	<u>1800</u>	<u>1900</u>	<u>2050</u>
Components of AIP:				
**Military Airport Program	N/A	\$27	\$29	\$41
**Noise Set-Aside	\$142.5	\$180	\$190	\$225
**System Planning	\$7.125	\$9.0	\$10	\$9.0
* Primary PAX Entitlements	\$662.625	\$837	\$884	\$574
*Cargo Entitlements	\$42.75	\$54	\$57	\$63
**Nonprimary Commercial Service	\$35.625	\$45	\$58	\$45
**General Aviation ("State Apportionment")	\$171	\$216	\$228	\$216
**Reliever Airports	\$142.5	\$180	\$190	\$180
***Capacity/Safety/Security/Noise	\$230	\$355	n/a	\$225
***Remaining Discretionary	\$76	\$118	\$266	\$223

* Entitlements
 *** Discretionary Set-Aside
 ***** Other Discretionary
 Source: Caltrans Aeronautics Program

Table 1b

	Federal Airport Improvement Program (AIP)				% Change 1994/95 to 1998/99
	(figures in millions)				
	FFY94	FFY95	FFY96	FFY97	
<u>Total AIP Appropriation</u>	<u>1690</u>	<u>1500</u>	<u>1450</u>	<u>1460</u>	
<u>Authorized Amount</u>	<u>2105</u>	<u>2161</u>	<u>2214</u>	<u>2280</u>	
Components of AIP:					
Military Airport Program	\$42	\$38	\$26	\$19	-30%
Noise Set-Aside	\$211	\$188	\$181	\$144	+1%
System Planning	\$13	\$11	\$11	See text	+54%
Primary PAX Entitlements	\$684	\$608	\$428	\$525	-21%
Cargo Entitlements	\$59	\$53	\$39	\$36.5	-15%
Nonprimary Commercial Service	\$25	\$23	\$22	(1)	-38%
State Apportionment	\$203	\$180	\$159	\$270	-7%
Reliever Airports	\$85	\$75	\$48	(1)	-66%
Capacity/Safety/Security/Noise	\$325	\$325	\$249	\$214	-7%
Remaining Discretionary	\$42	\$0	\$83	\$71	-7%

(1) Reliever and Nonprimary commercial service set-asides were incorporated into the one category of State Apportionment.

Source: Caltrans, Aeronautics Program

INSERT CHART

To help alleviate the shortfall in federal funding for airport development, Passenger Facility Charges (PFCs) were authorized under the Aviation Safety and Capacity Expansion Act of 1990. PFCs are an additional ticket tax of \$1 to \$3 on enplaning passengers (those getting on an airplane) with a maximum of \$12 per round trip. PFCs are assessed by airports and paid when a passenger purchases a ticket. The airlines collect the PFC revenues and transmit them to the airports.

Large and medium hub* airports that charge a PFC have their AIP entitlement reduced up to a maximum of 50% of their AIP passenger entitlement grant. Ideally, these entitlement “savings” then go into a "small airport fund" for general aviation, small hub and non-hub commercial service airport projects. Small and non-hub facilities may impose PFCs but they retain 100% of their AIP entitlement funds. As of September 1997, twenty airports in California impose PFCs₍₂₎.

PFCs can be used to fund projects that are: eligible for Federal dollars but for which Federal funds are not available; eligible for Federal funds; environmental studies and/or mitigation measures. Use of PFC funds is limited for off-airport projects such as intermodal projects that relieve ground access problems.

Airports that wish to impose a PFC must apply to the FAA for permission. Bonds backed by PFCs have received a lower credit rating because FAA can terminate an airport's PFC authority thereby reducing the ability of airports to improve existing facilities or construct new ones. However, a recent decision by various bond-rating firms in Illinois to award an investment grade rating to PFC-backed bonds may set a precedent and improve an airport’s ability to leverage its PFC revenues.

In recent years, Congress and the President’s administration have been reviewing the aviation Trust Fund and how it is funded. A proposal supported by airports is to increase the \$3 cap on PFCs to \$5. To date, this proposal has been opposed by the airlines and thus has not advanced very far.

* A large hub airport enplanes 1 percent or more of the total national enplanements; a medium hub airport enplanes 0.25 to 1.00 percent of total national enplanements; and a small hub airport enplanes 0.05 to 0.25 percent of total national enplanements.

II. STATE FUNDING

A. Background

As the federal government struggles to balance the budget, the Aeronautics Account in the State Transportation Fund is faced with similar budgetary woes. State funding in aviation has never been as lucrative as federal funding and primarily only general aviation and small commercial airports have taken advantage of or are eligible for the State's funding programs.

B. Legislative History

Following World War II, California had numerous surplus military airports, a large and expanding aviation industry, and a growing population of private pilots. Under the Federal Airport Act of 1946, the State Reconstruction and Reemployment Commission (SRRC) administered funds for airport construction. The Commission urged local governments to analyze the long-range needs of airports and incorporate them into community master plans and a statewide aviation system. In 1947, SRRC's report, "California Airports," called for a state agency that would be responsible for development of an adequate system of airports. A more thorough legislative history of the State of California's Aeronautics Program is contained in *Appendix B*.

C. State Funding Programs

The State of California serves the public's air transportation needs by administering two financial assistance programs: the California Aid to Airports Program (CAAP) and the Local Airport Loan Program.

1. The CAAP consists of three sub-programs:

a. Annual Grants are available to public-use, publicly owned general aviation airports. Commercial service and reliever airports are not eligible for these funds. An eligible airport is credited annually with a grant of \$10,000 which may be used for capital improvements, maintenance and operation. This grant may be accumulated for up to five years (a maximum of \$50,000). There is no match requirement for these funds.

b. Acquisition & Development (A&D) funds are allocated by the CTC on a discretionary basis for capital projects. To be eligible for A&D funds, an airport must have its project listed in the state's Capital Improvement Program (CIP). The CIP is a 10-year list of projects divided into two 5-year phases. The project listings are developed from local, regional, state and federal sources and are submitted to the Aeronautics Program through the RTPAs. The

listings include all public-use airport capital needs. Sources of funds (i.e., state and federal) are identified to complete the projects in a specific year.

The Aeronautics Program uses Table 2, "State Aeronautics Program Project Evaluation Matrix" to prioritize individual project submittals from the CIP. Eligible projects are ranked through the assignment of points for the type of project. The project rating also considers an airport's activity defined by the number of based aircraft and operations. The Aeronautics Program is developed from projects contained in the adopted CIP which is an element of the CASP. The Aeronautics Program is then adopted by the CTC in April of even numbered years. The CTC adopts succeeding biennial updates of the CIP. The local match for an A&D grant is 10%, although the CTC can raise it as high as 50%.

c. AIP Matching Grants are also allocated by the CTC. This grant assists the sponsor in meeting the local match for FAA AIP grants. The sponsor must meet the same eligibility requirements as for the Annual Grant except that reliever airports can receive AIP matching grants. The airport must also meet FAA eligibility requirements. The matching rate is 5% of the AIP grant. State funds for an AIP matching grant cannot be allocated by the state until the Federal grant has been accepted by the sponsor.

2. Local Airport Loan Program. This program provides financial assistance in the form of loans, repayable over a period not to exceed 25 years. The interest rate is based on the most recent State of California bonds sold prior to the issuance of a loan agreement. Three types of loans are available:

1. Matching funds loan. These loans are for the local match required for AIP grants;
2. Revenue generating loan. An agency must show a demonstrated need for the project, project engineering, financial feasibility and economic justification. Typical projects are hangars and fueling facilities; and
3. Airport development loan. These loans are for other types of development at airports such as terminals.

INSERT TABLE 2 - PROJECT EVALUATION MATRIX

Expenditures for the state funding programs for Fiscal Years 1990/91 to 1996/97 are summarized as follows:

CALIFORNIA AVIATION FUNDING PROGRAMS: FY 1990/91 - 1996/97

Fiscal Yr.	Annual Grant ¹	A&D ²	Matching Grant ³	Loans	Totals
1990/91	\$ 965,000	\$ 3,816,000		\$ 3,452,756	\$ 8,233,756
1991/92	\$ 965,000	\$ 3,437,000		\$ 2,003,716	\$ 6,405,716
1992/93	\$ 965,000	\$ 2,052,000		\$ 2,837,199	\$ 5,854,199
1993/94	\$ 965,000	\$ 2,573,920		\$ 953,233	\$ 4,492,163
1994/95	\$1,470,000	\$ 2,488,587	\$ 211,500	\$ 2,251,923	\$ 6,422,010
1995/96	\$1,470,000	\$ 1,073,000	\$ 499,671	\$ 1,372,422	\$ 4,387,593
1996/97	\$1,470,000	\$ 3,631,000	\$ 1,025,680	\$ 1,315,000	\$ 7,683,148
TOTALS	\$8,270,000	\$17,458,117	\$ 1,736,851	\$18,158,205	\$45,421,141

The primary source of funding for the State of California's Aeronautics Program are the excise taxes on general aviation gasoline (avgas) and general aviation jet fuel. Table 3 shows that avgas fuel taxes, a primary source of revenues for the Aeronautics Account, have been steadily declining which means that funds for the Aeronautics Program have been declining as well. However, jet fuel excise tax revenues have been going up and down but the fluctuations have not been very great.

¹ AB 597 became effective January 1, 1994, and increased the amount of the grant from \$5,000 to \$10,000; however, eligibility requirements changed. See text for further discussion.

² A&D Grant figures reflect allocations only, not programmed projects. Projects that have been allocated might not be constructed. Final cost of a project may vary from the programmed amount.

³ Matching Grants did not become effective until 1994 pursuant to AB 597.

TABLE 3*
TAXABLE AVIATION GASOLINE SALES
(IN GALLONS)

	1991	1992	1993	1994	1995	1996
January	3,154,665	2,767,875	1,800,165	2,568,118	1,912,701	2,235,319
February	2,908,279	2,577,743	2,277,943	2,450,101	2,670,879	2,126,691
March	2,947,708	3,945,897	3,176,124	3,160,522	2,680,658	2,884,208
April	3,412,272	3,250,671	2,965,988	3,197,846	2,855,593	2,871,937
May	4,030,245	5,207,040	3,437,226	3,362,613	3,129,074	2,950,466
June	3,915,191	2,287,115	3,165,533	4,009,371	3,453,497	3,471,427
July	4,392,475	4,199,009	3,329,189	3,965,500	3,737,410	3,146,966
August	4,334,488	4,094,788	3,528,949	4,129,222	3,996,024	3,834,075
September	4,436,130	3,597,064	3,062,413	3,624,053	3,513,244	2,839,021
October	3,448,095	3,091,372	3,342,985	3,412,018	3,333,032	3,954,586
November	3,369,838	2,492,381	2,974,604	2,628,546	2,658,228	2,155,141
December	2,404,055	2,217,958	2,423,837	2,166,206	2,112,129	1,731,626
TOTAL	42,753,441	39,728,913	35,484,956	38,674,116	36,052,533	33,312,574
% Change (from previous years)	-7.24%	-7.07%	-10.68%	8.99%	-6.78%	-7.60%

Source: Board of Equalization

*The decline in gasoline sales in 6/92 is due to bookkeeping adjustments by the Board of Equalization. The Board does not necessarily record fuel use in the month it is consumed, making it difficult to use the data for projections.

TAXABLE JET FUEL GASOLINE SALES
(IN GALLONS)

	1991	1992	1993	1994	1995	1996
January	5,270,214	4,677,257	4,831,043	4,806,333	4,861,356	5,422,303
February	4,781,680	4,162,702	5,129,291	4,735,941	5,082,272	5,598,519
March	4,492,844	4,775,785	5,727,975	5,621,039	5,797,210	6,281,533
April	4,116,933	5,566,490	5,715,348	5,164,852	5,026,980	5,613,709
May	4,931,913	5,396,748	5,375,194	4,925,257	5,928,490	5,937,544
June	4,197,902	5,528,150	5,376,039	5,733,400	6,037,104	6,405,909
July	4,718,492	6,471,322	5,560,109	5,630,237	6,739,817	8,087,393
August	4,646,052	5,719,477	5,236,924	5,803,819	6,269,178	8,738,325
September	4,939,822	5,260,223	5,604,972	6,507,144	6,245,188	6,080,914
October	5,918,878	5,768,260	5,876,688	5,026,080	6,857,991	7,125,071
November	4,259,590	5,323,129	5,106,434	4,826,249	6,078,401	5,739,006
December	4,841,747	5,323,129	4,825,537	6,061,582	5,618,525	5,791,709
TOTAL	57,116,067	63,972,672	69,196,597	64,841,933	71,542,512	76,821,935
% Change (from previous years)	-3%	+12%	+8%	-6%	+10%	+7%

Figure 2 identifies the various California Aviation User Taxes and where those taxes go. For example, the sales tax on aircraft jet fuel goes to State and Local General Funds and not the Aeronautics Account. The California Transportation Commission's (CTC) Technical Advisory Committee on Aeronautics (TACA) recommended that the CTC propose legislation to redirect existing State sales tax revenues from jet fuel sales out of the General Fund and into the Aeronautics Account to fund specific categories of airport improvements such as commercial airport ground access. The sales tax on aircraft jet fuel is predominantly paid by the airline industry, the revenues come primarily from the areas needing access improvements, and investment of the revenues will lead to significant increases in general fund revenues for cities and the state through economic growth in the near future. Sales tax revenues from jet fuel sales would probably be enough to at least leverage other local, state and federal funds. Equally important, the necessity to impose new taxes on the aviation industry would be avoided.

The sales tax revenues from general aviation jet fuel and a portion of the commercial jet fuel sales tax revenue should be used to make improvements at airports. The primary focus of these investments is twofold: 1. To enhance the accessibility of California's businesses, passengers and cargo to the international system of primary commercial airports through ground access improvements; and 2. The revenues from sales taxes derived at general aviation and reliever airports would fund improvements at general aviation and reliever airports.

INSERT FIGURE 2

III. LOCAL FUNDS

A. Background

In the early years of aviation, local general funds were the primary source for financing airports. As aviation grew and other community services began to compete for general funds, municipalities began to rely upon the sale of general obligation bonds to finance airports. When California's Proposition 13 significantly reduced tax revenues for local government operations, competition from the other community services for general obligation bond revenues increased. Consequently, airports began to utilize revenue bonds. Unlike general obligation bonds revenue bonds do not require a two-thirds vote of the population; interest rates are lower; there is a guaranteed revenue flow to service the bonds; and they are tax exempt.

Today, many local governments are experiencing pressures to increase their tax base through land development and accommodate developers attempting to maximize their property investments. The ability of local governments to fund maintenance, operations and development at public-use airports is becoming increasingly limited.

B. Local and Other Funding Programs

In addition to local funds, airports rely on user fees, concessions and leases to fund their aviation activities. The following chart describes how these other funding sources apply to general aviation and commercial service airports.

TABLE 4
LOCAL REVENUE SOURCES FOR AVIATION

<i>Financing Tool</i>	<i>Comments</i>	<i>General Aviation</i>	<i>Commercial Service</i>
User Fees	Airports and airport districts that do not receive local tax revenues rely on user fees. Can support airport revenue bonds at large commercial service airports.	Common source of income. Landing, fuel flowage, aircraft parking fees.	Airlines pay a landing fee depending upon gross landing weight; pay for aircraft parking, etc.
Concessions	Income from automobile rentals, food service, gift shops.		Biggest income generator is auto parking.
Leases	Varies between regions and airports. Re-evaluate periodically for adequacy to fund major investments and obtain market rates.	Primary source of revenue (Fixed Base Operators).	Terminal leases.
Bond Financing			
General Obligation Bonds	-	Limited.	Limited.
Revenue Bonds	Income-generating, self-supporting activities. Project revenues repay debt.	Limited.	Common source of income.
Property and Tax Revenues Generated by Aviation Users.		Common source of income.	Limited.
Other Revenues	Multiple airports in same system or other revenue-generating projects help fund future needs.	Very limited applicability.	Very limited applicability.

IV. NONTRADITIONAL AND PRIVATE FUNDING

A. Background

In the past, local governments have had the primary responsibility for developing and operating the airports in this country. Today, local governments are encouraging airports to not only be self-supporting but also to contribute to the public treasury. As a result, airport executives are increasingly called upon to run their facilities like private corporations - with greater emphasis on maximizing the airport's potential to generate the greatest possible amount of revenue.

B. Nontraditional Funding

In order to maximize their potential, airports must expand their financial horizons by looking for nontraditional sources of funding or through privatization. Some airports seek to maximize business opportunities by expanding their concessions, developing industrial parks and free trade zones, and/or increasing cargo operations. Industrial parks and free trade zones raise revenues on unused airport property and appreciate their close proximity to air service. One major study estimates that the leading all cargo carriers create one new job for every 20 tons shipped per year (approximately)⁽³⁾. Equally important, cargo operators pay aircraft landing and parking fees and rent facilities at the airport.

3. California Policy Seminar, "International Trade and Job Creation in Southern California: Facilitating Los Angeles/Long Beach Port, Rail and Airport Development," by Steven P. Erie, with the collaboration of Harold Brackman and James E. Rauch.

**TABLE 5
NONTRADITIONAL AIRPORT REVENUE SOURCES**

Nontraditional Sources	Pros	Cons	Comments
Undeveloped airport land	Collateral to obtain loans; bank land for runways or other airport projects.	Options need to be proven and explored in greater detail.	Evaluate competitive position of airport relative to similarly zoned property.
Land for non-aviation purposes	Enhance, diversify revenue; assist in development of airport infrastructure; create buffer zone between airport and residences; increase land value of airport property.	FAA must approve leases; grant assurances for AIP funds place limitations on generating revenue from non-aeronautical purposes.	Golf course, office, retail, hotel, restaurant, light manufacturing, warehousing. Buchanan Field in Concord has new and used car dealerships, fast food outlet, auto service and a large hotel.
Industrial parks on airport property	Lease revenue from private-business tenants support industrial park and airport.	Federal law requires airport generated revenues be spent on the airport or the airport system.	Assembly plant could benefit from being able to fly parts in, assemble on site, fly out again.
Foreign trade zone	Export processing or manufacturing. Make otherwise high duty foreign components and materials competitive in overseas markets.		Computer technology, health care electronic components, communications, business, aviation, avionics and agri-business equipment.
Federal Emergency Assistance (FEMA)	Available to airports following a disaster or mitigate possible future damage caused by a disaster.	Schools, hospitals and other public facilities are often awarded the majority of funds.	Cities, counties, private non-profit, State agencies may qualify for funds. \$600 million as seed money on a one-time basis.
Surface Transportation Program (STP)	Available to cities or counties competitively for projects of "regional" significance.	Technically, airport projects are eligible.	Could be used for off-airport ground access projects.

When general funds are spread too thin, local governments look for ways to ease their financial burden. To attract private development, the airport manager may have to offer some kind of financial incentives such as reductions in early ground lease payments, installation of infrastructure, public improvements or installation and maintenance of landscaping. Local governments in California can help businesses obtain low interest loans for airport projects by participating in the Bonds for Industry Program. The sale of Industrial Development Bonds are administered through a statewide industrial development authority. To qualify, an existing business must provide a public benefit such as new employment. Bonds may be taxable or tax exempt, depending on their use. The advantage to businesses is that financing often ranges from 60-80% of market rate.

Although all commercial airports in California are publicly owned, the private sector plays a significant role in their operations and financing. Some public-private partnerships exist between the owner/manager of the airport and a private corporation to develop and operate airport capital projects. Private companies may own and manage airport terminals or parking garages, airport facilities may be built and managed by airlines and non-airline private companies. In California, AGI, a private company is under contract to manage Burbank-Glendale-Pasadena Airport. At most major airports, the majority of people working at an airport are employed by private companies.

"Pure" privatization occurs when a government gives the ownership and complete control of a business or industry to a private company. There are few, if any, examples of "pure" privatization. The majority of airport owners do not want to give up complete control of the airport for various reasons. The Airport Council International identified some of the advantages and disadvantages of "pure" privatization:

TABLE 6
ADVANTAGES/DISADVANTAGES OF
AIRPORT PRIVATIZATION

Pros	Cons
Free of an entity that often requires large amounts of money;	Hurt community if airport does not bring in anticipated tax revenue;
Reduce government's role in business;	Require repayment of federal grant money;
Sale of airport would bring in a large amount of instant cash;	Reduce public accountability - subordinate programs that benefit community, environment;
Government could receive increased tax revenues each year from the private company;	Policies at odds with local, regional and economic planning;
Costs would be reduced as a result of relief from certain governmental regulations;	Lose public-owned airports tax-exempt status and AIP eligibility thereby increasing costs;
Market opportunities would be consistently sought out and pursued;	Decrease service if private owners increase immediate payoffs at expense of expansion projects that have a longer payback;
Financial and operating obligations clearly defined;	Require reinvestment of profits made at the airport back into the airport;
Long-term financial status and exposure of the airport firmly established;	Increase fees to airport users to pay for debt service or operating costs;
New and nontraditional sources of capital could be taken advantage of, expanding the opportunities for financing capital development.	Reduced willingness to invest in capital development and expansion projects until present capacity is fully utilized, straining overall aviation system.

Whether private firms could really operate airports more efficiently than public owners and pass on those cost savings to users is uncertain and would probably vary from airport to airport. Some airports may not be good candidates for privatization if there are few opportunities to increase revenue and cut costs. The current trend is for government to retain ownership of the airport while contracting management to a private firm. This has occurred with airports that are owned by Los Angeles and Riverside Counties. Another alternative would be for government to retain ownership and control of the airport and just solicit private funds.

V. NEEDS

In order to receive AIP funds, an airport must be listed in the FAA's National Plan of Integrated Airport Systems (NPIAS). The NPIAS estimates the costs of establishing a system of airports adequate to meet the current and future needs of civil aviation, the Department of Defense and the Postal Service. Administration of the NPIAS is carried out by nine regional offices. These offices continually update the NPIAS, which is published every two years. NPIAS eligibility requirements are discussed in Appendix C.

The actual cost of maintaining and developing the aviation system ranges greatly depending on the definition of needs. The 1990 NPIAS estimates California's infrastructure needs to be \$1.52 billion; however, the NPIAS does not reflect total development needs at airports. Aeronautics' CIP provides an assessment of the overall statewide aviation needs for all publicly-owned, public-use airports. The 1998 CIP identifies statewide aviation needs for these airports of \$2.1 billion over a 10-year period starting in 1998. Because of its length, the CIP is incorporated into this financial element by reference.

The Airport Pavement Management System (APMS) provides an estimate of statewide pavement maintenance needs. In 1993, Caltrans Aeronautics Program hired a consultant team to develop an APMS. The Federal Aviation Administration Authorization Act of 1994 required an airport, when applying for replacement or reconstruction of pavement, to provide assurances that it has an airport pavement maintenance and management program. Currently, the GAO is reviewing the implementation of this requirement. They are interested in knowing what the role of the state is relative to the APMS and how the APMS is being used. They will also be contacting various airports in California to get their perspective on the state's APMS program. The Financial Element will be updated as information regarding the status of the GAO's activities becomes available.

VI. CONCLUSION

Airports are a vital component of our nation's infrastructure and are a critical element in the productivity and prosperity of our nation's economy. Thousands of jobs are provided by daily airport operations. Airport funds may be decreasing but airport needs are increasing. If left unattended, airport problems will only become worse and ultimately more costly to remedy.

It is clear that airports can no longer rely on the federal government to fund most of their capital improvements. For 1998, the AIP funding level is \$1.7 billion, a 21% increase over 1997 AIP appropriations. Certainly, this increase in funds is a move in the right direction. It is doubtful that it will be enough to allow airports to "catch up" with their maintenance and improvements needs.

The State of California has been experiencing its own budget problems. In recent years when the state has been unable to balance the budget with existing revenues, the legislature has "borrowed" funds from non-General Fund sources, such as the State Highway and Aeronautics accounts, in order to make up the difference.

Local governments collect taxes and fees from airport-related activities that go into their general fund. Local governments then distribute these funds in order to help pay for the myriad of services that they provide to an ever-increasing population. Consequently, when it comes to allocating funds to local city and county-owned airports, airports are not high priority items.

Even private and nontraditional sources have their problems. There are many other competing interests for nontraditional funds, such as FEMA funds. Private industry is laying off employees and generally is having as many problems as government in making ends meet. Many do not want to take on the problems of an airport.

To maximize the use of these limited resources, airport managers must leverage federal, state and local dollars against one another. If private and nontraditional funds are added to the mix, the result could be a "system of funds."

The FAA is attempting to develop new funding mechanisms that are equitable to the aviation community, the flying public and the taxpayer and that provide an adequate, stable and predictable funding source for FAA programs. Some of the proposals for a new approach include:

- Creating an airport revolving loan fund, rather than a grant-based system;
- Relaxing eligibility requirements for AIP funding, allowing airport sponsors more freedom in the use of their funds, particularly to enhance debt financing terms; and
- Exploring a more extensive use of private sector participation in the airport community, both for individual airports and the system as a whole, including the air traffic control system.

Under the current AIP, the FAA has the authority to approve 10 Innovative Financing Demonstration Programs. Thus far, the FAA has selected four demonstration projects. Three of the projects involve the use of non-federal matching shares. The projects are: 1. Facilitation of residential relocation in support of a noise mitigation program; 2. Construction of a new runway at a general aviation airport; 3. Development of projects at general aviation, reliever and non-primary commercial service airports in a block grant state; and 4. Credit enhancement at a non-primary commercial service airport using an AIP grant supported by bonds issued to construct a new runway. The FAA has the authority to approve an additional 6 projects (for a total of 10) under this new demonstration program.

The FAA states in its Annual Report for 1996 that they expect PFCs to play an even greater role in the future as the federal government moves toward a balanced budget⁽⁴⁾. PFCs are critical to airports because they provide the financing tools and greater independence airports require in order to respond to the needs of the air traveler and the communities they serve. A report issued by the Airports Council International found that, without PFCs, many projects would go unfunded or would be delayed. The long-term capacity improvements and benefits PFCs provide would not be available when the airlines and traveling public need them, and the jobs and the economic benefits that those jobs provide would be lost⁽⁵⁾.

Some airports can utilize nontraditional funding sources by maximizing business opportunities. Expanding their concessions, developing industrial parks and free trade zones, and/or increasing cargo operations could raise revenues. The location of businesses on unused airport property has the added advantage that industrial businesses are usually not bothered by airport noise and instead appreciate being located near air service.

Privatization may not necessarily be the right option for every airport but, as previously discussed, there are many different levels of privatization. That is, government can retain control of the airport through regulations and holding the deed, while giving management over to a private firm. Government could also retain ownership and control of the airport but solicit private funds. Another alternative is to keep the ownership of the airport while leasing out the operations to a private firm.

Airports must look to innovative funding programs in order to meet the demand of current and future air travelers. The next ten years are likely to see a great diversity of changes with innovation replacing traditional approaches. While change is often unwelcome and can be very disruptive, the end result may be greater flexibility in terms of new models to follow for airport operation and management.

4. FAA Annual Report, 1996, p. 10.

5. Airports Council International, Written Statement on Passenger Facility Charges and Airport Privatization, Before the Subcommittee on Investigations & Oversight, House Public Works and Transportation Committee, July 13, 1994.

APPENDICES

APPENDIX A FEDERAL AVIATION LEGISLATIVE HISTORY

Federal Airport Act	Authorized the Federal Aid to Airports Program (FAAP) funded from the general fund of the U.S. Treasury. Aimed at improving World War II surplus military airports for civil use.
Airport and Airway Development Act of 1970	Established the Airport and Airway Trust Fund. Planning Grant Program (PGP) which funded airport planning, airport master plans and state and regional airport system plans. Airport Development Aid Program (ADAP) provided grants for airport development. Funded with aviation user taxes collected from airline fares, air freight and aviation fuels which were deposited into newly created Aviation Trust Fund.
Airport and Airway Improvement Act of 1982	Divided Federal funding program into two parts: the <u>Airport</u> Improvement Program (AIP) continued to fund airport planning and development previously available under the ADAP and PGP. The <u>Airway</u> Improvement Program appropriated money for FAA activities. Created three airport planning and development funding categories: enplanement, state apportionment and discretionary funds.
Airport and Airway Safety and Capacity Expansion Act of 1987	Added new funding categories such as entitlements for cargo airports, land acquisition and advance construction costs. Within the "pure" discretionary category, 75% was reserved for primary airports and their relievers for capacity, safety, security and noise projects. The term "airport" was expanded to include heliports and seaplane bases. Five categories of airports were also created: commercial service; primary; cargo hub; reliever; and general aviation airports.
Aviation Safety and Capacity Expansion Act of 1990	National Aviation Noise Policy adopted; Military Airports Program (MAP) created; State Block Grant Pilot Program initiated within three states; initiated PFCs.
Airport and Airway Safety, Capacity, Noise Improvement and Inter-modal Transportation Act of 1992	Increased MAP apportionment and the number of eligible airports; primary airports received an increase in minimum entitlements and a new maximum was established; cargo hub airports' apportionments increased; State Block Grant Pilot Program extended and expanded.

**Federal Aviation
Administration
Authorization Act of 1994**

Increased minimum primary passenger entitlement grant; nonhub primary airports eligible to receive discretionary funds for terminal development but set-aside reduced; reliever set-aside reduced; aviation system planning funds increased. The MAP was extended and maximum number of airports increased. MAP Airports could receive grants for only five years. Any new MAP airports reduce delays at a commercial service airport with more than 20,000 hours in annual delay. Airports are allowed to impose "reasonable" fees on airlines (such as landing fees). An airline can appeal to the U.S. Department of Transportation (DOT). An airport, when applying for replacement or reconstruction of pavement, must provide assurances that it has implemented an airport pavement maintenance and management program.

**Federal Aviation
Administration
Reauthorization Act of
1996**

MAP extended two years with 12 sites; State Block Grant Program became permanent and was expanded to 9 states; Airport Privatization Pilot Program established; FAA's highest priority is safety; excise taxes were reinstated for 18 months; reliever and non-primary commercial service airport funding categories eliminated and incorporated into state apportionment funds; system planning set aside eliminated.

**Taxpayer Relief Act of
1997**

General aviation fuel taxes and air cargo waybill remain in place; international airline taxes increase; domestic airline taxes combined into an ad valorem/flight segment tax; phases in a 7.5% passenger ticket tax - down from 10%; head tax for each flight segment: \$2.50 in 2000; \$2.75 in 2001; \$3 in 2002; doubles the international departure tax to \$10; imposes a new \$12 international arrival tax and a \$1 segment tax.

**APPENDIX B
STATE OF CALIFORNIA
AVIATION LEGISLATIVE HISTORY**

Federal Airport Act of 1946	State Reconstruction and Reemployment Commission administered funds for airport construction.
State Aeronautics Commission Act - 1947 (Public Utilities Code Sections 21001 et seq.)	Created State Aeronautics Commission which provided grants and loans for planning, acquisition, construction, improvements, maintenance and operations of airports owned by political subdivisions of the state.
1949 amendment	Authorized a seven-cents-per-gallon tax on gasoline used by general aviation aircraft (avgas) to be used for airport financial assistance programs. State Controller paid \$2,500 annually to each county and required each county to establish a special aviation fund for capital outlays at airports.
1961 amendment	State Aeronautics Board replaced the Commission. A Division of Aeronautics was created within the Department of Public Works. The Annual Grant paid to airport sponsors rather than counties.
1964 amendment	Avgas tax was split between Annual Grant, Division costs and Airport Assistance Revolving Fund. Used for discretionary acquisition and development (A&D) grants for airports.
1969 amendment	Two-cents-per-gallon tax imposed on aircraft jet fuel (commercial airlines exempt).
1970 amendment	Annual grant allocation to airports increased to \$5,000.
1972 amendment	Department of Transportation (Caltrans) created with Aeronautics as a division. All aviation funds consolidated into California Airport Aid Program.
1973 amendment	Regulations to implement loan program adopted.
1977 amendment	Funding regulations updated; name changed to California Aid to Airports Program (CAAP).
1978 amendment	California Transportation Commission established with State Transportation Improvement Program (STIP) as means to program all transportation funds including airports.

1981 amendment	Avgas tax increased from seven cents to nine cents per gallon.
1989 amendment	Scope of California Aviation System Plan expanded. Required a Capital Improvement Program to be adopted every two years.
1990 amendment	Motor vehicle tax, which includes avgas, raised to maximum of 18 cents per gallon.
1993 amendment	Local governments allowed to receive state funds to pay for part of local match required by FAA grants for reliever and general aviation airports. Annual Grant raised to \$10,000 but only general aviation airports eligible for funds.

APPENDIX C

CRITERIA USED TO SELECT AIRPORTS FOR NPIAS

The following criteria are used to select airports to be included in the NPIAS:

- a. Commercial Service Airports - Airports which are publicly owned and have scheduled airline service and a minimum of 2,500 enplaned passengers annually.
- b. Primary Airports - A commercial service airport which has more than 10,000 passengers enplaned annually.
- c. Reliever Airports -
 1. The reliever airport must provide substantial capacity or instrument training relief by showing:
 - a) a current activity level of at least 50 based aircraft, or 25,000 annual itinerant operations, or 35,000 annual local operations, or
 - b) a desirable location for instrument training activity.
 2. The relieved airport:
 - a) is a commercial service airport that serves a standard metropolitan statistical area (SMSA) with a population of at least 250,000 persons or has at least 250,000 annual enplaned passengers, and
 - b) operates at 60 percent capacity.
- d. General Aviation Airports:
 1. Airports receiving U.S. Mail Service;
 2. Airports with military activity;
 3. Other:
 - a. Airports that were in prior plans remain in this plan with certain exceptions.
 - b. An existing airport that is part of an accepted state or regional airport system plan may be included if it serves a community located 30 minutes or more average ground travel time from the nearest existing or proposed NPIAS airport and has at least 10 based aircraft.
 - c. An existing airport not meeting the criteria in a. or b., but which is forecast to have 10 based aircraft within five years, and there is an eligible sponsor willing to undertake the ownership and development of the airport.
 - d. If an existing airport does not meet the criteria above, it may be included in the NPIAS if: 1) the benefits exceed its costs, or 2) it is remote, serves the need of an Indian tribe, a recreational area, or protects important natural resources.
 - e. Public-use heliports that make a significant contribution to public transportation are included if they have four based rotorcraft or 800 annual itinerant operations or 400 annual operations by air taxi rotorcraft.

APPENDIX D

FEDERAL AIRPORT IMPROVEMENT PROGRAM FUNDING CATEGORIES

Although Congress establishes national AIP goals, funding categories, and program limitations, the FAA administers the various federal aviation funding programs based on the needs that individual airports identify. Grants are made to public agency sponsors who own or operate airports. Privately owned, public-use airports are eligible for federal grants only if they are in the NPIAS and designated as a reliever. RTPAs, local governments eligible for noise funds, and the state may all be sponsors. FAA requests that local sponsors, in conjunction with local, metropolitan or state planning agencies, identify their own annual capital improvement needs and submit project proposals to be included in the NPIAS. Airports listed in the NPIAS do not automatically receive AIP funding. There may be more projects than available funds or the airport may not be eligible for federal grants because they are out of compliance with FAA rules.

A sponsor must submit an application for a specific project before the FAA will award an AIP grant. All airports receiving AIP funds must demonstrate their ability to provide a "matching share" (generally 10%). A sponsor must be legally and financially able to assume and carry out the assurances and obligations contained in the project application and grant agreement. The FAA identifies additional basic qualifications that a sponsor must meet in order to receive a grant.

The FAA allocates most AIP funds based on a legislated entitlement formula and "set-aside" categories earmarked for specific types of airports or projects. The FAA has discretionary authority to allocate the remaining AIP funds on the basis of needs that are identified by individual airports. Congress periodically adjusts the amount of funds directed to the funding categories. The following discusses in more detail the various funding categories within the AIP followed by a matrix and explanatory notes detailing what projects are eligible for funding and under what categories of funds.

1. Entitlement Funds or "formula grants" provide funds to primary and cargo airports based on activity levels. Development projects eligible for entitlement funds include facilities or equipment associated with the construction, improvement or repair (excluding routine maintenance) of an airport. Grants may not be made for the construction of hangars, automobile parking or for buildings not related to the safety of persons on the airport.

2. State Apportionment funds are allocated based on an area/population formula. They are available to eligible general aviation, reliever and nonprimary commercial airports. A portion of the total annual authorization goes to the states and other areas such as Guam and Puerto Rico.

3. Set-Asides. Set-asides are established by Congress to direct specified amounts of funding to certain projects such as noise abatement or airport types like conversion of military airfields for civilian purposes.

a. Noise Compatibility Programs. Eligible projects consist of items that are contained in an airport noise compatibility program approved under Federal Aviation Regulation Part 150. Under a “grandfather” provision of the law, grants may also be issued to implement noise compatibility programs developed prior to Part 150. A noise compatibility plan examines noise from aircraft using the airport and runways to mitigate noise impacts on the surrounding communities. The plan consists of noise exposure maps and a noise compatibility program.

b. Military Airport Program (MAP). The MAP legislation cites three conditions that an airport must meet to be eligible:

1. It must be a former or current military airport;
2. It must have the potential for conversion to either a public-use commercial service or reliever airport; and
3. Its whole or partial conversion would enhance airport and air traffic control system capacity in major metropolitan areas and reduce current and projected flight delays⁶.

The MAP legislation allows participating airports to use these funds for certain projects not otherwise eligible under the regular AIP program such as revenue-generating terminal areas (up to \$5 million) and parking lots, fuel farms and utilities (up to \$4 million). Nationwide, 15 airports participate in the MAP. In California, Norton Air Force Base (now known as San Bernardino International Airport) participates in the MAP as a reliever airport for Ontario International Airport⁷.

3. Discretionary Grants are those funds that remain after entitlement grants and set-aside obligations have been met. These funds are awarded at the discretion of the FAA and can supplement any other category as long as the majority of these funds support capacity, safety, security and noise compatibility projects at primary and reliever airports.

As of 1997, Airport System Planning projects are eligible for discretionary grants and must compete with capital projects for funding. The FAA encourages planning at the state, regional and local levels. The system planning process provides local, regional, state and federal officials an opportunity to examine aviation needs and issues that are applicable to their jurisdiction. The resulting information assists officials in making decisions on airport policy and development. Since 1992, California’s Aeronautics Program, along with the FAA and the Regional Transportation Planning Agency Aviation System Planning Committee, have sought to identify a five-year program of aviation system planning projects that may be funded with AIP funds. This program is called the "Plan for Planning" and its objectives are:

1. Early identification of aviation system planning projects and their costs;

2. Multi-agency cooperation in establishing planning project priorities consistent with the needs of the state and regional aviation systems;
3. Efficient use of FAA AIP System Planning Grants; and
4. Balanced distribution of AIP Planning funds.

The projects should be part of a comprehensive aviation system planning program for each region. For example, eligible projects include Regional Aviation System Plans, air cargo studies, air passenger surveys, general aviation studies and aviation economic impact studies. The Plan for Planning has been very successful in making system planning funds available to agencies who in the past have had little access to these funds.

Master Plans are eligible for entitlement, state apportionment or discretionary funds and must compete with airport development projects for AIP funding. An airport master plan identifies the development necessary at individual airports based on 5, 10 and 20-year forecasts of aviation activity, environmental and community compatibility and financial feasibility. The system planning process provides local, regional, state and federal officials an opportunity to examine aviation needs and issues that are applicable to their jurisdiction. System planning projects are eligible for discretionary or state apportionment funds.

APPENDIX E EXPLANATORY NOTES FOR FUNDING MATRIX

The following is intended to give guidance in the use of federal and state funds for airport projects. Because of the tremendous complexity of the various funding programs, the reader is advised to consult with the appropriate FAA or State Aeronautics Program representative to confirm the eligibility of these items for funding.

(1) Landside Development

(a) Entitlement (**Entitle.**) funds will cover 75% of the cost of terminals for primary commercial service airports.

Discretionary (**Disc.**) funds may be used for not more than \$200,000 for nonprimary commercial service airports. Discretionary funds may be used for terminal expansion if they are required to increase system capacity by increasing airport capacity.

Passenger Facility Charges (**PFCs**) may be used for airport terminal projects as well.

State loan funds may be used for terminal buildings or pilots' lounges.

(b) Multimodal terminals are eligible for entitlement funds if located within the boundaries of the airport. Only the portions of the building which are directly related to aviation are eligible, however.

(c) To be eligible for entitlement or PFC funds, an access road must be located on the airport or within airport owned right-of-way. It must exclusively serve airport traffic. Service roads are eligible if necessary for: ARFF access to the runway and runway safety area; the operation and maintenance of the airport.

Service roads are eligible for the State of California Aid to Airport Program (hereinafter referred to as CAAP) composed of acquisition and development (A&D), annual grant and AIP matching funds.

(d) Walkways such as surface sidewalks, tunnel walkways, stairs and overhead walkways can be paid for with entitlement funds at commercial service airports.

Only surface sidewalks as part of an access road are eligible items for noncommercial service airport funds.

(e) Rapid transit facilities are eligible items for entitlement funds but the facility must be within the airport boundary and must primarily serve the airport.

(f) Discretionary and PFC funds are available only to primary airports and relievers for purposes of preserving and enhancing airport capacity. Discretionary funds can be used by new reliever or new commercial service airports constructed to increase metropolitan system capacity. New airports which will be the sole airport serving a community are also eligible to use discretionary funds for capacity projects.

(2) Planning

(a) For Noise Compatibility Plans and Master Plans/Airport Layout Plans, the following type of work activities are eligible for discretionary funding: initial study for an existing airport; study for a new airport; completion or continuation of a phased project; a periodic update; a supplemental grant for an ongoing study. Noise Compatibility Plans and Master Plan/Airport Layout Plans are also eligible for entitlement and set-aside (noise compatibility program) funds.

(b) State CAAP funds may be used for master plans, airport layout plans and Comprehensive Land Use Plans (CLUPs).

(c) State and/or Regional System Plans are eligible for state apportionment of discretionary funds. The following work activities are eligible for discretionary funds: initial plan; continuous planning and supplemental grant for ongoing study.

(3) Airfield

(a) Eligible work items for entitlement, discretionary and PFC funds include construction, reconstruction and repair of runways, taxiways and aprons funded with entitlement funds. Airfield signs are also eligible.

Discretionary funds can also be used for signs for all primary and secondary runways at commercial service airports.

(b) New runways and aprons are covered under discretionary funds if they are required to increase system capacity by increasing airport capacity.

(c) Construction and reconstruction of runways, taxiways, aprons and helipads are eligible items for State CAAP and Loan programs.

Federal discretionary funds can be used for runway extensions to accommodate a specific critical aircraft. Runway and taxiway widening and strengthening are also covered. **Capacity projects to accommodate changes in volume rather than type are not covered.**

(a) Initial marking of eligible runways, helipads, taxiways and that part of the apron allied with the taxiway system are eligible work items for entitlement, discretionary (except helipads) and PFC funds. Remarkings is eligible if the present marking is obsolete under current FAA standards or the present marking is obliterated by construction, alteration and repair work under an AIP project.

Airport marking systems such as segmented circles, wind socks, traffic pattern indicators and wind tees are eligible for the state's CAAP funds.

(b) Construction of new runways, lengthening, widening, strengthening or leveling of existing runways are eligible for entitlement funds. AIP participation is **usually** limited to a single runway.

Rehabilitation of runway pavement, including seal coating, is an eligible item for AIP discretionary funds.

(c) Also eligible for entitlement, discretionary and PFC funds: Construction of new taxiways or strengthening, widening or leveling the taxiway; parallel taxiway connected to an eligible runway at commercial service airports; partial parallel taxiway is permissible at non-commercial service airports where a full-length parallel taxiway cannot be constructed; exit and bypass taxiways, turnarounds and holding bays if necessary to expedite the flow of traffic; taxiways to storage, hangar and service areas for use by the general public.

(d) The construction, alteration and reconstruction of public-use aprons are eligible for entitlement, discretionary and PFC funds.

(e) Paving to accommodate helicopters on a fixed-wing aircraft airport or on a heliport are eligible for entitlement and PFC funds.

(f) Fuel facilities are eligible items under the state's loan and annual grant programs. To qualify for the loan program, an agency must demonstrate a need for the project and their inability to finance the project from other sources. Project engineering, financial feasibility and economic justification must also be demonstrated.

(g) Aircraft parking, including tiedowns and T-hangars, are eligible for CAAP funds and for a state loan. Aircraft parking surfaces must be built to general aviation standards.

(4) Lighting and Electrical Work

(a) To be eligible for entitlement funds, the installation, alteration and rehabilitation of airfield lighting equipment and related electrical work must conform to FAA design and engineering standards. This includes lighting of obstructions as deemed necessary under FAR Part 77. Control equipment, electrical panels and transformer vaults necessary for the operation of eligible airfield lighting and equipment necessary for the operation of radio activated lighting systems are also eligible. The connection of the airfield lighting to the nearest available and adequate power source is also eligible as is the interconnection of two or more power sources on the airport property.

The replacement or rehabilitation of runway lights is eligible for discretionary funding.

(b) The purchase and installation of runway, taxiway, boundary or obstruction lights, with directly related electrical equipment, to meet general aviation needs are eligible for CAAP funds.

(c) Any runway, taxiway, apron or helipad eligible for paving with federal funds are also eligible for lighting using entitlement funds. Runway and taxiway lights are also eligible for discretionary dollars.

Lighting for runways, apron, and taxiway are eligible for CAAP funds. These items, plus ramp lighting, are also eligible under the loan program.

(d) Beacons, lighted wind indicators and obstruction lights are eligible for entitlement funds when necessary for night operation of the airfield. Retroreflective markers are eligible if they provide sufficient and safe guidance.

Lighting of obstructions and/or floodlights are eligible for CAAP funds.

(5) Navigational Aids

(a) The installation of navigational aids for landing and take-off is accomplished through FAA Facilities and Equipment (F&E) program. However, under certain circumstances navigational aids may be funded with entitlement or PFC funds. **Please see FAA's Airport Improvement Program Handbook** for more specific information.

(b) Under the federal program, to qualify for an AWOS, an airport must undergo a benefit/cost analysis. **See FAA's Airport Improvement Handbook** for specific details.

(c) Navaids and AWOS are eligible for CAAP and loan funds.

(6) Security and Safety

(a) The acquisition of safety equipment to meet the requirements of FAR Part 9 is eligible for entitlement, discretionary and PFC funds. Protective clothing for firefighters, equipment used on ARFF vehicles, buildings to house and maintain eligible ARFF equipment and activities are also fundable.

(b) The acquisition of security equipment and facilities required under FAR Part 107 and the buildings to house and maintain the security equipment are eligible for entitlement and PFC funds.

(c) The cost to refurbish, repair or modify eligible equipment, to increase the performance of the equipment and/or to extend its useful life may be eligible for entitlement or PFC funds if not normal maintenance. Replacement of equipment and the purchase of used equipment are also eligible items.

Aviation radio equipment and facilities may be funded with CAAP funds.

(d) Purchase of ARFF vehicles required for certification is eligible for entitlement, discretionary and PFC funds. Noncertificated airports under FAR Part 9 are eligible for one ARFF vehicle. **Please see FAA's Airport Improvement Handbook** for more specific details.

(e) Snow and ice control equipment required to clear runways, principal taxiways, aprons, gate areas, storage facilities for snow and ice control equipment and materials are all eligible for entitlement funds, as are runway surface condition sensors.

(f) Friction measuring devices are eligible for entitlement funds at commercial service airports having turbojet operations. **Please see FAA's Airport Improvement Handbook for more specific details.** Friction treatment is eligible under the discretionary program.

(g) Perimeter fencing and fencing between airport property and public areas are eligible for entitlement and PFC funds, as are fences to discourage wildlife access. At commercial service airports, fencing of operational and/or security areas required under FAR Parts 9 and 107 are eligible. AIP funds can usually only be used for the installation of standard gate and locking devices.

Security fencing is an eligible item under the state's CAAP and loan program.

(7) Airport Hazards and Constraints

(a) The removal and relocation of any object located in the runway protection zone is eligible for entitlement funds regardless of whether it constitutes an obstruction.

Removing or remarking of an airport hazard is an eligible item for discretionary funding.

Removal of obstructions from runway safety areas, runway protection zones or approach surfaces, and the other imaginary surfaces, if they have been determined by the FAA or Caltrans to be a hazard, can be paid for using CAAP or loan funds.

(b) Work conducted to reduce bird hazards is eligible for entitlement funds. Please see FAA's **Airport Improvement Handbook** for specific criteria.

(8) Land

(a) The approach zones, including runway protection, horizontal, conical and transitional zones, at airports are all eligible for entitlement and PFC funds. The installation, operation and maintenance of navigational aids, within or outside the airport boundary, is also eligible for PFC and entitlement funds if relocation is required by the airport development and if the airport sponsor is responsible for the relocation.

There are allowable AIP costs for resolving airspace conflicts as well. Please see FAA's **Airport Improvement Program Handbook** for details.

Land required for eligible navigation aids can be paid for with state CAAP funds.

(b) Administrative buildings, hangars, equipment buildings, fixed base operator buildings, other airport buildings needed in connection with the operation and maintenance of the airport are eligible items under the entitlement and PFC programs. The building area includes the tie-down area, transient parking apron, automobile parking, access roads and walks. Rights-of-way for drainage, sewage, storm water runoff, utility lines, etc., that are located outside the airport boundary are also eligible.

(c) Runway, taxiways, associated safety areas, ramps, aprons and land adjacent to these facilities are eligible for PFC and entitlement funds. Land for ultralight operations at an existing airport is eligible if necessary for safety or capacity purposes and if the airport is eligible to receive grant funding.

(d) The following are eligible for state CAAP and loan funds: (1) land to be used for the operation of airplanes (i.e., runways, taxiways, ramps, airplane loading areas, hangars) and those areas within the airport boundary reserved for safety purposes. This land must remain solely under the operation and control of the sponsor; (2) land for runway overrun protection comprising a maximum rectangular area extending 1,000 feet beyond the end of the runway and 250 feet on either side of the extended runway centerline. These areas must be cleared and maintained usable for emergency use by aircraft and unrestricted access by fire and rescue equipment.

(e) Acquisition of land for future airport development is an eligible item under the entitlement program. Please see the FAA's **Airport Improvement Program Handbook** for requirements.

Acquisition of land for future airport development is also an eligible item for state CAAP funds.

(f) Acquisition of land for aviation easements, drainage, runway protection zones, and encroachment protection are eligible for CAAP A&D funds. Land required for compliance with conditions imposed by a state airport permit is also eligible. Certain land acquisitions are eligible for the loan program.

(9) Noise

(a) The acquisition of or interest in land to ensure that such land is used only for purposes compatible with the noise level of the airport is eligible for entitlement and set-aside (noise compatibility program) funds. However, certain provisions must be fulfilled. Acquisition of land may occur under three general conditions: (1) To change land use; (2) Without change to

land use; (3) Easements and other property interests. Please see the **Airport Improvement Program Handbook** for details.

(b) Noise insulation projects can be funded with entitlement or set-aside (noise compatibility program) dollars. Eligible structure include residences, schools, churches, hospitals, and other buildings identified as noncompatible. The FAA's **Airport Improvement Program Handbook** has more specific details.

(c) Noise monitoring equipment/systems are eligible for entitlement, set-aside (noise compatibility program) and PFC funds **subject to criteria outlined in the FAA's Airport Improvement Program Handbook**.

Noise monitoring equipment to meet general aviation needs is an eligible item for CAAP and loan funds.

(d) Noise barriers, earth berms, wall structures, "hush houses" and other devices designed to shield areas from airport noise are eligible for entitlement, PFC and set-aside (noise compatibility program) funds **subject to the provisions outlined in the FAA's Airport Improvement Program Handbook**.

(e) Miscellaneous noise compatibility projects such as runway and taxiway construction, including land acquisition, lighting and marking, if for the primary purpose of noise relief, are eligible items for entitlement and set-aside (noise compatibility program) funds. Lighting and/or visual markers to help pilots fly specific noise abatement traffic patterns are also eligible.

(f) Special studies to redevelop a noncompatible area, to address noise compatibility problems and to prepare noise elements of local building codes are all eligible for entitlement and set-aside (noise compatibility) funds provided they result in implementable products.

Costs associated with a noise compatibility project such as construction costs, real estate sales commissions, tenant relocation costs, etc., are all eligible for entitlement and set-aside (noise compatibility program) funds. Please see the FAA's **Airport Improvement Program Handbook** for details.

(10) Environmental

(a) PFC funds can be used for environmental studies and mitigation measures in conjunction with a project.

(b) State CAAP funds can be used for water, sanitary sewer and to purchase land required for drainage projects to make the airport operationally usable.

(11) Miscellaneous

(a) Blast fences are eligible for entitlement funds if needed for safety and if they are the most economical alternative.

(b) Landscaping is eligible for entitlement funds only to the extent that it is necessary for erosion control.

(c) Land and construction for ultralight operations at an existing airport are eligible for entitlement funds if necessary for safety or capacity purposes and if the airport is eligible for grant funding.

(d) Construction site project signs are eligible for entitlement funds if at least \$200,000 of federal funding is involved and the project will be underway for at least three months. Please see FAA's **Airport Improvement Program Handbook** for more details.

(e) Relocation of roads and utilities are eligible for entitlement funds if they constitute an airport hazard or impede eligible airport development. **Specific restrictions are outlined in the FAA's Airport Improvement Program Handbook.**

(f) Structures that would otherwise not be eligible for AIP funds would qualify for entitlement or PFC funds if they constitute an airport hazard or impede eligible airport development. **See the FAA's Airport Improvement Program Handbook for criteria.**

(g) The following Special Projects are eligible for discretionary funds: Congressional mandated runway grooving projects; vertical visual guidance systems on all primary runways; bringing an airport up to NPIAS standards.

(h) Project engineering costs are eligible under the AIP program. These costs can include the cost of land acquisition, direct administrative costs, engineering fees, plans and specifications, temporary construction costs, removal and relocation costs of buildings and facilities, legal fees and related litigation costs.

Project services are reimbursable with CAAP and loan funds if the project is funded and constructed with State funds. There is a maximum percentage of the total construction cost that can be allocated for project services unless additional services are certified eligible by Caltrans. This limit applies to total costs incurred whether services are provided by sponsor employees or by others. Project services include appraisers, architects, engineers, environmentalists and science-related services necessary to accomplish required environmental documentation, airport design, contract drawings, plans, specifications, preliminary studies, reports, drawings, soils investigation, mapping, construction staking, testing, land surveys and project inspections. Legal and administrative costs are not included.

(i) To be eligible for matching funds under the state's Airport Loan Program, an agency must have a FAA AIP project number. **Please see Caltrans' document State Dollars for Your**

Airport for details. Matching funds are also available under the CAAP program for projects that are eligible under the state program.

(j) Servicing of revenue or general obligation bonds issued to finance capital improvement projects for airport and aviation purposes are eligible for state CAAP funds (Annual Grant). Bond servicing means the payment of interest and of underwriting fees. It does not include the payment of principal debt.

(k) Maintenance, operations, restrooms, showers, and wash racks are eligible only for CAAP annual grant funds.

APPENDIX F

FUNDING NON-AVIATION TRANSPORTATION PROJECTS

The Financial Element has discussed how aviation projects are funded and the various sources for aviation funds. This Appendix discusses transportation funds for highways, local roads and streets, transit, rail and nonmotorized modes of transportation followed by a discussion of the transportation planning and programming process.

FEDERAL FUNDING PROGRAMS

Highways, Local Roads and Streets

Surface Transportation Program (STP) are flexible funds that can be used for road or transit capital projects. The state must set aside 10% for safety projects, including rail-highway crossings. Thirty percent goes to the California Transportation Commission (CTC) for allocation to projects of their choice. Ten percent must be set aside for transportation enhancements such as pedestrian and bicycle facilities. The final 50% are Regional Surface Transportation Program (RSTP) funds which go to the RTPAs for allocation to projects of their choice. Highway, transit, bicycle, and pedestrian improvement projects are eligible activities for RSTP funds.

Congestion Mitigation and Air Quality (CMAQ) funds can be used only in ozone and carbon monoxide nonattainment areas. Projects to be funded must contribute to the attainment of a national ambient air quality standard. Typical projects are: public transit improvements, high occupancy vehicle (HOV) lanes for highways, bicycle and pedestrian facilities.

National Highway System (NHS) comprises a network of roads that are the most significant to interstate travel and national defense, are essential to international commerce and connect with other modes of transportation. Up to 50% of a state's NHS apportionment may be transferred to the RSTP. A transfer of up to 100% is possible if approved by the Secretary of the Department of Transportation.

Bridge Replacement/Rehabilitation Program funds are primarily oriented towards replacement and rehabilitation of bridges. Seismic retrofits are also eligible for funding.

Transportation Enhancement Activities (TEA) program is a competitive grant program funding environmental and alternative transportation projects which enhance the transportation system.

Transit

Federal Transit Agency (FTA) Section 9 Program Funds can be used as local capital funds or to meet the mandates of the Americans with Disabilities Act. A portion of Section 9 funds can be used to support annual operating budgets. Section 9 funds, determined by Congress each year, are divided among regions and operators within regions on a formula basis.

FTA Section 18 Program Funds are allocated according to a formula to non-urbanized areas. This federal program is administered by Caltrans.

FTA Section Program Funds are capital funds apportioned to the states through FTA to providers of transportation for the elderly and disabled. This program is administered by Caltrans and is intended primarily for private nonprofit providers.

Rail

There are certain specified rail activities which are eligible for funding under the Flexible Congestion Relief program (FCR), under the Transportation Enhancement Act (TEA) or under the Surface Transportation Program (STP). Please see discussions above for a description of these programs.

Section 3 Rail Modernization Funds are allocated on a formula basis to historic rail cities and to cities with fixed guideways at least seven years old or any other fixed guideway city which can demonstrate rehabilitation needs.

Nonmotorized

TEA funds can be used for nonmotorized projects. Please see discussion above for a description of this program.

STATE FUNDING PROGRAMS

Recently enacted Senate Bill 45 (10/97) changed the funding structure for State projects. What was once a nine category program was consolidated into two.

Interregional Program

Caltrans submits the Interregional Improvement Program (IIP) which includes state highway, intercity passenger rail, transit guideway and grade separation projects. Sixty percent of the projects are to be on the interregional highway (outside of an urban area) and 15% are to be for intercity rail (rail lines connecting cities) including grade separations.

Regional Program

Regional Transportation Planning Agencies (RTPAs) and county transportation commissions submit Regional Transportation Improvement Programs (RTIPs) after consulting with Caltrans. Projects include transportation improvements for state highways within an urban area, local roads, public transit, intercity rail, pedestrian/bicycle facilities, grade separation, transportation system management, transportation demand management, soundwall projects, intermodal facilities and safety.

Senate Bill 45 renamed the Transportation Planning and Development (TP&D) Account to Public Transportation Account. The specific transit programs include: Local Transportation

Funds (LTF) which are used primarily for public transportation and for bicycle and pedestrian facilities. Under certain circumstances LTF funds can also be used for streets and roads. State Transit Assistance (STA) funds can be used for mass transit (capital or operating expenses) or transportation planning. These funds cannot be used for streets and roads.

In addition to the funds from the regional program which can be used for bicycle projects, Caltrans administers two other funds for non-motorized facilities: Bicycle Lane Account (BLA) funds are awarded to projects on a competitive basis annually. This program is administered by Caltrans. LTF funds can be used for non-motorized projects.

PLANNING AND PROGRAMMING PROCESS

Transportation planning is a continuous, comprehensive and coordinated (3-C) planning process. It is continuous in that planning documents are updated on a regular basis; coordinated in that federal, state, regional and local agencies should work together in the implementation of their plans; and comprehensive in that transportation planning should incorporate all the factors that can affect transportation such as land use or economics.

Regional Transportation Plans (RTPs) are prepared by the 43 Regional Transportation Planning Agencies (RTPAs) in the state. RTPs are to be submitted biennially. Rural regions may submit their plans every four years. The RTP is the "master plan" for the region outlining regional goals and transportation improvements to be implemented over the next 20 years. The policy, action and financial elements are the only required elements. However, most RTPs address all modes of transportation. Caltrans, through its Aeronautics Program, emphasizes a comprehensive Aviation Element in the RTP. Information from the Aviation Element is incorporated into the CASP which is updated every five years. The CIP should be included in the RTP so that it can be incorporated into the CASP. Because CIPs are due in August/September of odd numbered years and RTPs are due in December of even numbered years, the submittal of RTPs and CIPs are not coordinated.

The Regional Transportation Improvement Plan (RTIP) is a subset of the RTP. It is updated every two years and contains a region's four-year program of state and federally funded transportation projects. The RTIP, through its specific program of projects, implements the goals, policies and actions contained in the RTP. The programming of aviation projects does not correspond with the programming of other transportation projects in several ways. First, CIP projects contained in the RTP should be a part of the RTIP. However, CIP projects are part of the RTIP only if the RTPAs object to the aviation projects that Caltrans is proposing for their region. Second, aviation projects are adopted at the same time as the State Transportation Improvement Program (STIP) but are not part of the STIP; instead, they are adopted as the Aeronautics Program. Finally, while the other modal projects are programmed for seven years, aviation projects are programmed for three years in order to give airport managers more flexibility in programming their projects.

RTPAs analyze, rank and prioritize modal projects for their RTIP. In the case of aviation projects, however, airport managers simply submit their aviation projects to their RTPAs. The RTPAs put the aviation projects into a regional CIP to be forwarded to Caltrans. Aviation projects do not have to be evaluated nor ranked relative to the benefit they provide to the regional transportation system.

At the Federal level, aviation projects are treated differently as well. The Intermodal Surface Transportation Efficiency Act (ISTEA) requires that there be a Federal Transportation Improvement Program (FTIP) which contains all federally funded surface transportation projects at the state and regional level. Projects in the RTIP and programmed by the CTC into the STIP become the basis for the FTIP. Currently there is no requirement that federally funded aviation projects be incorporated into the FTIP.

State and regional transportation agencies must assure that projects contained in the RTP and FTIPs conform to federal air quality standards. Highway and transit projects are subject to the transportation conformity requirements; aviation and rail are subject to the general conformity requirements. The transportation conformity requirements are well developed and established because RTPAs have been working with those requirements for several years. General conformity requirements, on the other hand, are relatively new and procedures are not as well established.

CONCLUSION

From the discussion above, it is evident that the aviation system planning process is not coordinated with the rest of the regional transportation planning process. The requirement for aviation projects in the RTIP is different than for other modes; RTPAs do not evaluate aviation projects for their region like they do projects for the other modes; there are no requirements for aviation projects in the FTIP. In some cases, such as air quality, aviation is not even considered a form of transportation. Although timing of the CIP is not consistent with that of the RTP, this may not be a problem because some RTPAs fail to prepare an RTP or they submit their RTP beyond the December 1 deadline date. If they were to be late in their submittal of CIP projects, through the RTP process, some airports would not get their projects into the CIP in time to be programmed into the next three-year Aeronautics Program cycle.

Highways, transit, rail and nonmotorized funding is available to the other modes through a variety of sources. In some instances, the moneys go directly to the RTPAs to be distributed. Some funds are distributed according to formula and others are awarded on a discretionary basis. State aviation funds are distributed by the state based upon a formula or discretionary process. Federal aviation funds go directly to the airport on a formula or discretionary basis. FAA's program does not involve the RTPAs. In addition, the FAA has their own Airport Capital Improvement Plan (ACIP) which is submitted by the airports to the FAA every year. This is

another area in which the processes are different in that the ACIP is due in June and the state's CIP is due in September. Thus, the federal process (ACIP) and the State's process (CIP) are not coordinated.

ISTEA stresses intermodalism as a new way of approaching transportation planning. Yet both the state and the federal government could do a lot more to bring the aviation process more in line with the overall transportation planning process. As it is, transportation planning is not a 3-C process; that is, it is not coordinated and it is not comprehensive because it omits air as a mode of transportation. Only when **all** modes of transportation are incorporated into a complementary planning and programming process will transportation planning be truly intermodal.

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Table 2

AIRPORT AND AIRWAY TRUST FUND		
Income Statement		
October 1, 1993 to September 30, 1994		
	10/1/93 to 9/30/94	10/1/96 to 4/30/97
Gross Receipts	\$ 5,217,326,400.00	\$1,851,968,000.00
Minus Reimbursement to the General Fund (Refund of Taxes and Estimated Tax Credits)	<u>28,060,340.00</u>	\$ 25,056,828.00
Net Tax Revenue	\$ 5,189,266,060.00	\$1,826,911,172.00
Plus Total Investment Income	\$ <u>810,045,013.13</u>	\$
NET RECEIPTS	\$ 5,999,311,073.13	\$2,090,667,236.60
Minus Total Non-Expenditure Transfers	<u>\$(6,491,684,800.12)</u>	\$3,282,078,069.95
SURPLUS/(DEFICIT)	\$ (492,373,726.99)	(\$1,191,420,943.35)

Table 3

AIRPORT AND AIRWAY TRUST FUND		
Balance Statement		
	As of September 30, 1994	As of April 30, 1997
Liabilities and Equity		
Beginning Balance	\$12,877,550,721.34	\$7,614,026,298.84
Minus Net Change	\$(492,373,726.99)	(\$1,191,420,943.35)
TOTAL EQUITY	\$12,385,176,994.35	\$6,422,605,355.49
TOTAL LIABILITIES AND EQUITY	<u>\$12,385,176,994.35</u>	<u>\$6,422,605,355.49</u>

ACTIVITY REPORT	
TOTAL EXPENSES	\$ 6,491,684,800.00
NON-EXPENDITURE TRANSFERS - DOT	\$(6,491,684,800.00)
TOTAL NON- EXPENDITURE TRANSFERS	\$ (6,491,684,800.00)

