



**COLORADO**  
Department of Transportation  
Division of Aeronautics

5126 Front Range Parkway  
Watkins, CO 80137

## MEMORANDUM

**TO:** Colorado Aeronautical Board  
Colorado Aviation Community

**FROM:** David Ulane, Director

**DATE:** January 23, 2017

**SUBJECT:** 2017 Division Financial Look Forward

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### Background

In April 2015, the Colorado Department of Transportation's (CDOT) Division of Aeronautics was issued an \$11 million, five year loan by the Office of the State Controller to mitigate potential aviation system impacts arising from the Division's earlier over-obligation of discretionary grant funds and concurrent underestimation of declining Division revenues. This loan provides the Division the ability to honor all outstanding discretionary airport grant obligations, and the ability to issue a reduced amount of annual grant funds going forward. Condition #5 of that loan agreement requires that CDOT "put controls in place to assure that CDOT and the Division of Aeronautics are adequately tracking and monitoring revenues and there is proper review of the program by different parties so we can avoid this situation in the future."

In May 2015, the Colorado Aeronautical Board (CAB), Division of Aeronautics, and CDOT entered into a Memorandum of Understanding (MOU) to "more clearly define collaboration and coordination between CDOT and its Division of Aeronautics in order to achieve the goals of the Division, CDOT and the Colorado Aeronautical Board." The intent of the MOU, in part, was to comply with condition #5 of the State Controller's loan, and to improve the processes, procedures and methodologies by which the Division forecasts and communicates its financial position.

Since that time, the Division has been working diligently to implement significantly improved revenue forecasting processes and tools, along with strategies for better communicating those forecasts and expectations with our stakeholders earlier and more frequently. The information presented in this memo is a continuation of these efforts, which we will continue to implement, refine and improve.



## 2016 Accomplishments

In 2016, the Division continued to make significant accomplishments towards improving our financial acumen, and our communications with our stakeholders. Specifically, we:

- Hired an amazingly talented and insightful Business Manager who has been a key part of improving the Division's financial operations.
- Developed and implemented a conservative new revenue forecasting model that incorporates a variety of data inputs, and accounts for historical actual oil prices versus Energy Information Administration (EIA) forecasts. This forecast to date has proven to be over 95% accurate, and we continue to look for opportunities to further refine and improve this important tool.
- Established new relationships with key high level financial staff at Denver International Airport (DEN) and DEN's major fuel supplier. These have provided the Division with additional new forecast data and insight, providing even more resolution to our financial model.
- Addressed and closed out all 23 recommendations from the 2015 Paragon external performance audit. Implementation of these recommendations have also resulted in several process and procedure improvements to the Division's operations.
- Continued to refine our monthly financial dashboard reports, which clearly and succinctly articulate the Division's current and forecasted financial position.
- Continued regular quarterly meetings between the Division Director and the executive board of the Colorado Airport Operators Association (CAOA) to share financial data and outlooks, and to obtain CAOAs insight and input into the Division's operations, policies and plans.
- Expanded our efforts to communicate information about the Division's financial position. This includes monthly dashboard reports, quarterly financial stakeholder updates, and this annual look forward report, all of which are communicated broadly through a variety of channels such as our website, web-streamed CAB meeting, Mountain Wave newsletter and association conferences.
- Refined our airport excise tax refund process to eliminate a burdensome claim process and paperwork. This process improvement expedites the refund process and refunds more money to airports, money that often went unclaimed under the previous process.
- Maintained our strong collaboration and communication with CDOT's Division of Administration and Finance on Division financial operations.



## Current Status/2017 CDAG Grant Program

During 2016, slightly increasing oil prices and significantly increased fuel flowage at DEN resulted in the Division's continued financial improvement. In June 2016, the Division reached its lowest negative balance of \$4.59 million, and we have been trending upwards since, with a forecast negative ending balance this month of approximately \$3 million.

The Division's financial recovery is also being hastened by this year's CDAG maximum grant reduction to \$150,000 from \$250,000, again limited to federally-funded projects only. This change, which was communicated to airports over a year ago, will remain in place at least until the Division's financial recovery, currently forecasted to occur in mid 2018.

For 2017, the statewide airport grant program is still being finalized, and staff continues to work with FAA and our airports to put the final touches on this year's projects and costs. As of today, it appears that the 2017 CDAG grants to be presented for CAB consideration at the March meeting will total about \$1.65 million for 28 airports. These 28 airports will use approximately \$4.4 million of their own funds along with the Division's to leverage over \$52.2 million of FAA AIP Funds for projects totaling over \$58 million statewide. To date, no airport has had to forego any federal funds due to our reduction in the maximum CDAG grant amount, and we truly appreciate the efforts of our airports to commit adequate local funding to these important projects.

## 2018 and Beyond

As noted above, the Division's current forecasting model shows that the Division's cash balance will go positive in mid-2018. While that estimate is based on a conservative forecast, the Division will continue to cap CDAG grants at \$150,000 per airport per year only on FAA-funded projects. Doing so will help the Division continue to adhere to the terms of the State Controller's short term loan and the MOU between the Division, CAB and CDOT.

It is important to note that when the Division's cash position does return to a positive balance, the Division does not suddenly have funds available for a larger CDAG program. Once a positive balance is achieved, our first priority will be to establish and load a contingency fund to allow the Division to manage future significant revenue swings internally. The Division is presently developing that contingency plan and policy, which will be risk based and indexed regularly to the Division's then-current financial exposure. When ready later this year, the contingency plan and policy will be vetted with CDOT's Division of Administration and Finance, and approved by the CAB, and we'll look forward to stakeholder input.



The Division is extremely excited about the future, and the opportunities our financial recovery will provide to aviation and airports statewide. In preparation for those opportunities, we are proactively planning the following initiatives to help us chart a clear course forward:

- State Systems Plan Update- Our current state systems plan was last updated in 2011, and is in definite need of updating. This key plan, required of the Division by state statute, is the most critical and important guiding document for the CAB and Division. This document quantifies the needs, objectives and priorities of our state aviation system, and guides the CAB and Division in how to best invest our resources to address those needs. We are working with FAA to program a \$250,000 AIP grant in FY 18 to help fund this plan, which we have budgeted for and expect to kick off in early 2018.
- Economic Impact Study Update- We are also programming the update of our Economic Impact Study, which was last updated in 2014. We have heard repeatedly from airports, communities and businesses about the importance and value of this product, and we look forward to continuing it. Alongside the state airport systems plan, this document helps inform the CAB and Division on investment priorities. Much of the data collected in the state systems plan update will be current and useful in this study, allowing it to be completed more expeditiously and cost effectively. We expect to begin this project during or towards the end of the system plan update (late 2019), depending on financial resources and staff bandwidth.
- Division Strategic Plan- This initiative is our most exciting near-term effort, one about to get underway. While the CAB and Division are required by statute to accomplish certain things like refund aviation fuel taxes to airports, and to have a discretionary grant program, the CAB and Division have significant latitude with how and where the Division's revenue is utilized for the aviation purposes outlined in statute, including education and safety. To help collaboratively identify how those resources should be used, we are currently seeking a qualified strategic planning consultant to help us refine and develop our mission, vision and values, and help the CAB and Division define what initiatives are important to our stakeholders, and how we prioritize and tackle those for the maximum benefit to aviation in Colorado. This will be a highly inclusive and collaborative effort, one which will include participation from a broad representation of Colorado's aviation community. We aim to have a consultant selected and strategic work underway in mid-March.

The Division is entering an exciting period as we get closer to recovery, and we look forward to continuing our partnership and collaboration with our close-knit aviation community. As always, myself and Division staff welcome feedback and suggestions at any time.

