COLORADO
Department of Transportation
Division of Aeronautics

5126 Front Range Parkway
Watkins, CO 80137

# MEMORANDUM

Date: 11-19-14

To: Colorado Aeronautical Board

From: Dave Gordon, Director, Division of Aeronautics

Subject: 2015 Airport Grant Program

The purpose of this Memo is to provide information regarding the availability of funds for the FY 2015 Colorado Discretionary Aviation Grant program, CDAG, and to make recommendations for a process to implement the grant program with a reduced amount of funds.

After making the following comments I'll present graphs and financial spreadsheets that explain in more detail the basis for the grant program funding recommendations. Also, we have staff in attendance who will assist in answering any questions at the end of my presentation. Those include TK Gwin, our Grant Program Manager and Greg Goldman, our Business Manager. I suggest that questions be held until the presentation is completed at which time the Board and others will be invited to ask questions.

About 3 weeks ago division staff was informed by the Business Manager that the amount of funding available for this years grant program was not at a level that was predicted earlier. The amount that we had planned for was around the $15 million dollar range but this figure was based on unrealistic revenue forecasts.

The new financial forecasts have determined that only $3 million is an amount that should be awarded in the new grant cycle. This amount is a drastic reduction from what we were planning for. The division recognizes this new information is very concerning and places unforseen challenges to airports who are struggling to plan and fund capitol improvement projects of all sizes. As soon as we realized this situation we advised the aeronautical board and our airports through an email communication. Our planners have also contacted each airport individually, where ever possible, to discuss this situation and to begin answering questions on how we move forward. Our staff has also met with the FAA Airport District Office staff to discuss the ramifications on their program and projects. I have also discussed this matter with CAOA leadership to advise them of the situation. As we move forward with the grant cycle we will coordinate with CAOA and the FAA to gather their input on how we implement a revised grant cycle that is transparent, meets the goals of a sound airport system and distributes funding to the highest priority projects.

As we move foreward a priority for the grant program should be to ensure the state and airports do not lose any FAA grants. The $3 million program is adequate to meet our portion of the FY 2015 programmed

FAA grants for the Colorado airports. These funds will be used to provide half of the local communities 10% match on FAA grants.

Also, it is important to point out that this conservative approach is to ensure that we have adequate funds to meet the current obligations to airport grants that are still open.

We have solicited assistance from the CDOT Division of Accounting and Finance. They have reviewed our financial statements to verify cash on hand, fuel tax revenues, current grant obligations and forecasting models to verify what we consider to be an acceptable level of grants for the new cycle. They have determined that our cash on hand number is accurate and that our fuel tax receipts are correct and that our method of forecasting available funds for the next grants is supportable. This office has agreed to continue providing support to the division as we move forward with developing a more sophisticated forecast model that will provide data to establish sound financial decisions from which to make recommendations to the CAB.

The root cause of the current situation we are addressing today is due to one primary factor. That factor is that in the last 18 months the cost of jet fuel has been on a downward trend. The impact of this drop and the associated reduction in the state fuel tax that supports our division and grant program was not clearly understood. Had we forseen this financial impact sooner, or at least considered worst case scenarios, we would have reduced the amount of grants given in the last grant cycle. Instead of giving out $24 million in the last grant cycle we should have considered an amount closer to $12 million. Our error was not contemplating that fuel prices would continue a downward trend and that drastic reductions as we are now experiencing would occur. As we move forward our focus must be on developing a forecast model that provides complete financial data, industry forecasts, current grant obligations and operating expenses that provides funding recommendations for different levels of risk from which good business decisions can be made by the board and staff. Again, we will utilize expertise from the CDOT Division of Accounting and Finance to assist us in preparing these models. CDOT has also undertaken a similar program to develop a cash management process to increase the utilization of their fund balances so their experience in a similar initiative can be helpful to us as well.

So what were the circumstances that got us to this situation of less funds for the upcoming grant cycle?

- First, some history is needed on where we have come from in the last few years.
- About four years ago the division was receiving more revenues than we had seen historically. The following chart shows historical figures for fuel tax revenues, CDAG grant awards and year end fund balances.

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Revenue | $25.2 | $36.9 | $41.4 | $45.2 | $36.8 |
| Awards | $6.5 | $14.0 | $23.7 | $23.2 | $25.0 |
| YE Fund Balance | $27.7 | $32.5 | $37.1 | $19.7 | $13.5 |

As a result the CAB determined that is was appropriate to start a more aggressive grant program to lower this balance and get the money out to airports where is was supposed to go. As a result, staff developed a program that increased the amount for Tier I grants to a higher level ($150,000 in 2011, $250,000 in 2012 and $450,000 in 2014) in addition, a Tier II category was used in years 2012, 2013 and 2014. Tier II grants were given out at higher limits based on the priority of a specific project and financial needs. In addition, many grants were given to airports that included overmatch for FAA projects and many projects were funded totally from local and state funds....without any FAA assistance. Our program in the last several years has moved many airport projects forward to benefit many communities that would not have otherwise been able to maintain or expand their facilities to meet needs including projects that support emergency medical flights, as an example.

- As we were more aggressivley issuing airport grants the pricing of fuel continued it's upward rise. And in 2013 the grant program was still based on fuel tax revenue projections of $42 million per year. Shortly after grants were approved in January of 2013 the price of fuel began to decline.
- At this point let me describe how the division funds it's operations and grant program for the benefit of those in the audience who may not know our financial structure.
    - The Division of Aeronautics is a division of the Coloraodo Department of Transportation. We are the aviation portion of this multi-modal transportation department. The funding source for the division is generated totally from taxes on aviation fuels. About 93% of the funds collected are returned to airports through fuel tax reimbursements and the airport grant program; approximately 3% is used for division administrative and operating costs and the remaining 4% is used for projects and programs managed by the Division.
    - The Colorado Aviation Fund receives revenues collected on three aviation taxes:
        - 1. An excise tax of 6 cents per gallon on sales of aviation-grade gasoline, AVGAS.
        - 2. An excise tax of 4 cents per gallon on sales of jet fuel paid by aircraft operators other than commercial airlines.
        - 3. A state sales and use tax of 2.9% of the retail value of jet fuel purchased by all private and commercial aircraft operators.
    - Private and business operators that purchase jet fuel pay both the excise tax of 4 cents per gallon and the sales and use tax. Commercial airlines pay only the sales and use tax.
    - The Colorado Department of Revenue (DOR) collects these taxes from fuel sellers and distributors for each month, with reports and receipts due to DOR by the 20th day of the following month, with the amounts sold at each airport reported separately. Reports and collections are 60 days in arrear.
    - The Aeronautics Division receives these funds from CDOR and distributes them in the following month as follows:
        - Collections from the first 4 cents per gallon of the excise tax on AVGAS, from all of the 4 cents per gallon of the excise tax on jet fuel and from the first 65 percent of the sales and use tax on jet fuel are returned directly to the airports at which they were collected.
        - Collections from the remaining 2 cents per gallon of the excise tax on AVGAS and from the remaining 35 percent of the sales and use tax on jet fuel fund are used for administrative costs of the Aeronautics Division and, subsequently, the Colorado Discretionary Aviation Grant Program.

Power point slide presentation.

- Review graphs on crude oil and jet fuel prices.
- Review spreadsheet for various scenarios based on current grant obligations, operating expenses, estimated fuel tax collections and subsequent funds available for discretionary grants.

RECOMMENDATIONS:

In order to make a recommendation to the Board for an amount available for the upcoming grant cycle staff has determined that the current annual collection rate for this current fiscal year ending on June 30, 2015 should be estimated at $33 million. This is a conservative forecast based on current collection rates and estimated collections for the rest of this fiscal year.

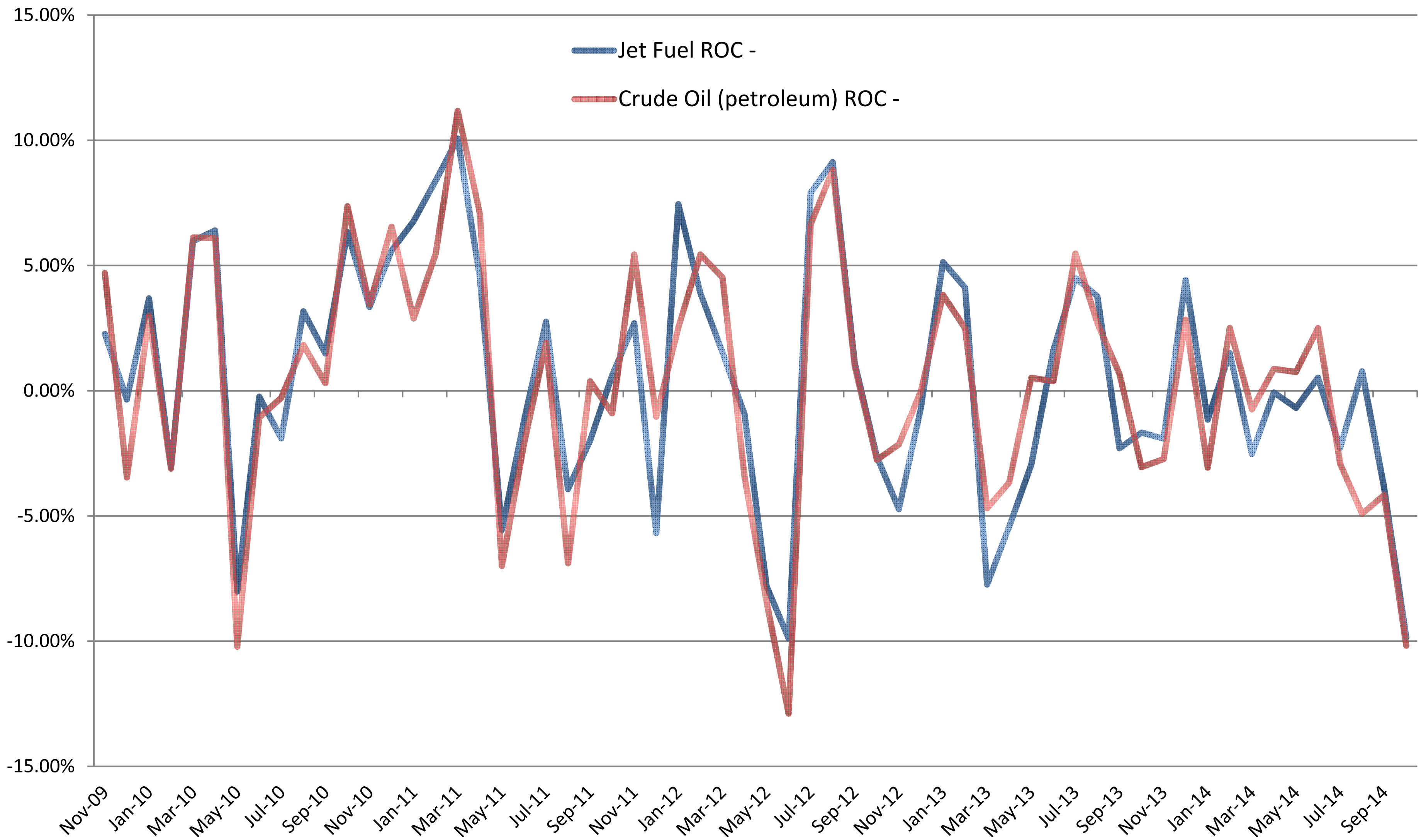
Staff Recommends the following:

- Funds that are available for the FY 2015 CDAG program be prioritized to meet the obligations of outstanding airport grants.
- The funds that remain after meeting current grant obligations should be committed to match FAA grants. Airports with programmed FAA grants should submit grant applications to the Division for consideration in January. CDAG grants that are used to match FAA grants should be allocated based on engineer estimates but not actually contracted until actual costs are known and FAA grants are awarded.
- Consideration for approving any further grants be delayed until staff presents financial information that supports additional grants.
- Staff be directed to develop new forecasting and financial analysis to determine impacts from fuel tax revenues on the grant program.
- Funds for education grants, except for the airport internship program, are suspended until further notice.
- Staff is directed to analyze the current policy of maintaining an uncommitted fund balance of $1.5 million and recommend changes to this policy.

DISCUSSION

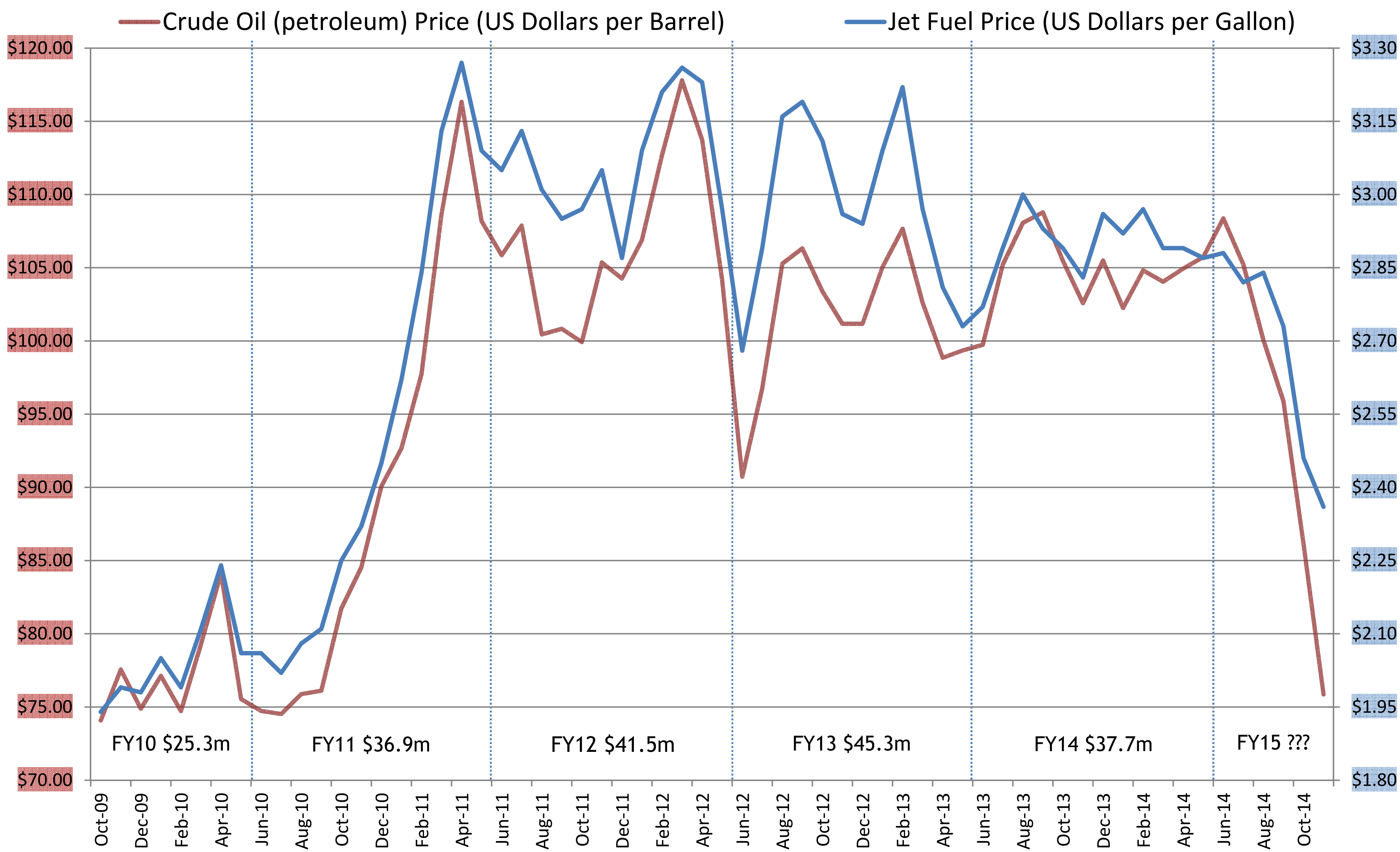
# Jet Fuel vs. Crude Oil

## Price Rate of Change Comparison – 5 year




*Source: US Energy Information Administration*

# Jet Fuel vs. Crude Oil – Price Comparison




*Source: US Energy Information Administration; Historical statistics, un-weighted monthly average of the daily closing spot prices for Jet A Fuel & Crude Oil*

# CDOA Revenue & Grant Program Forecasting Scenarios

## BUDGETED REVENUE - Forecast #1

Forecast of planned grant funding at FY 2015 budgeted revenues (Jet A approx >$3.15 gal.)

| | Actual Numbers | | | Forecast Scenario | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fund Balance FY Start | $ 32,585,524.00 | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 5,399,081.23 | $ 2,005,814.89 | $ 2,325,978.84 | $ 3,245,190.84 |
| Total Revenue | $41,484,086.00 | $45,283,550.00 | $37,714,895.00 | $42,350,000.00 | $42,350,000.00 | $42,350,000.00 | $42,350,000.00 | $42,350,000.00 |
| Grant Awards | $24,124,848.00 | $23,020,954.00 | $24,380,961.00 | **$15,000,000.00** | **$12,000,000.00** | **$13,000,000.00** | **$14,000,000.00** | **$13,500,000.00** |
| Fund Balance FY End | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 5,399,081.23 | $ 2,005,814.89 | $ 2,325,978.84 | $ 3,245,190.84 | $ 3,574,402.84 |

## CURRENT BASE LINE REVENUE - Forecast #2

Forecast if revenues are consistent, represents a 15% decline from FY 2015 budgeted revenues (Jet A approx $2.90-$3.10 gal.)

| | Actual Numbers | | | Forecast Scenario | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fund Balance FY Start | $ 32,585,524.00 | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 3,838,331.23 | $ 2,084,314.89 | $ 3,013,728.84 | $ 3,282,190.84 |
| Total Revenue | $41,484,086.00 | $45,283,550.00 | $37,714,895.00 | $36,000,000.00 | $36,000,000.00 | $36,000,000.00 | $36,000,000.00 | $36,000,000.00 |
| Grant Awards | $24,124,848.00 | $23,020,954.00 | $24,380,961.00 | **$8,000,000.00** | **$10,000,000.00** | **$12,000,000.00** | **$11,000,000.00** | **$11,000,000.00** |
| Fund Balance FY End | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 3,838,331.23 | $ 2,084,314.89 | $ 3,013,728.84 | $ 3,282,190.84 | $ 3,500,652.84 |

## Revenues 15% less than current baseline - Forecast #3

Reduction beginning Jan 2015 (Jet A approx $2.45-$2.65 gal.)

| | Actual Numbers | | | Forecast Scenario | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fund Balance FY Start | $ 32,585,524.00 | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 3,356,831.23 | $ 2,509,814.89 | $ 3,956,228.84 | $ 4,211,690.84 |
| Total Revenue | $41,484,086.00 | $45,283,550.00 | $37,714,895.00 | $33,300,000.00 | $30,600,000.00 | $30,600,000.00 | $30,600,000.00 | $30,600,000.00 |
| Grant Awards | $24,124,848.00 | $23,020,954.00 | $24,380,961.00 | **$3,000,000.00** | **$8,000,000.00** | **$10,000,000.00** | **$10,000,000.00** | **$9,000,000.00** |
| Fund Balance FY End | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 3,356,831.23 | $ 2,509,814.89 | $ 3,956,228.84 | $ 4,211,690.84 | $ 3,797,152.84 |

## Revenues 30% less than current baseline - Forecast #4

Reduction beginning Jan 2015 (Jet A approx $2.00-$2.20 gal.)

| | Actual Numbers | | | Forecast Scenario | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fund Balance FY Start | $ 32,585,524.00 | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 2,695,331.23 | $ 2,055,314.89 | $ 6,478,728.84 | $ 5,881,190.84 |
| Total Revenue | $41,484,086.00 | $45,283,550.00 | $37,714,895.00 | $30,600,000.00 | $25,200,000.00 | $25,200,000.00 | $25,200,000.00 | $25,200,000.00 |
| Grant Awards | $24,124,848.00 | $23,020,954.00 | $24,380,961.00 | **$0.00** | **$0.00** | **$12,000,000.00** | **$10,000,000.00** | **$7,000,000.00** |
| Fund Balance FY End | $ 37,121,678.00 | $ 19,779,031.00 | $ 13,577,282.00 | $ 2,695,331.23 | $ 2,055,314.89 | $ 6,478,728.84 | $ 5,881,190.84 | $ 3,643,652.84 |

# Revenue & Grant Program Forecasting

- Forecasting scenarios include actual financials up to the start of Fiscal Year 2015 (July 1, 2014), Forecasting begins past this point.

- No forecasting assumptions for Grant Program Funding are made that would potentially drop the fund balance below $2,000,000.

- Approximate Jet A fuel prices that are observed in the market and trend with a given revenue for the Division are shown with each scenario.

- Many variables can fluctuate these assumptions and forecasts, but overall they do provide a good estimate for potential Grant Program funding.

- The Division has not used these forecasting assumptions in the past and intends to move forward refining the forecasts and updating them on a regular basis with current trends and actual numbers as they become available.

# Revenue & Grant Program Forecasting

- 4 Forecasting scenarios being presented represent:
  - Budgeted FY 2015 Revenue - $42,350,000 annual (CDOT OFMB Revenue Forecast)
  - Current Revenue Collections (15% decline from budgeted) - $36,000,000 annual
  - 15% decrease in current revenue - $30,600,000 annual collection
  - 30% decrease in current revenue - $25,200,000 annual collection
- Visible data variables include:
  - FY starting Fund Balance
  - Total FY Revenue
  - FY Grant Awards
  - FY ending Fund Balance
- Hidden data variables include:
  - 65% Fuel Tax Reimbursements
  - Admin & Division Project Expenses (currently $2.3m annual)
  - Estimated FY Grant Reimbursements
- The formulas used to estimate grant reimbursements are based on historical trends and vary depending on the grant year. For example:
  - An approximate demand for reimbursement on a FY 2013 Grant Award would be:
    - 10% of grant award to be reimbursed during FY 2013
    - 52% of grant award to be reimbursed during FY 2014
    - 22% of grant award to be reimbursed during FY 2015
    - 6% of grant award to be reimbursed during FY 2016
    - 10% of grant award to be recovered as unused