



April 11, 2016

Letter from the Director

April Update: Aeronautics Financial Look Forward



David Ulane - Aeronautics Director

The Background

At the Colorado Aeronautical Board Meeting held January 25, 2016 in conjunction with the Colorado Airport Operators Association (CAOA) Winter Conference, I prepared and presented a detailed 2017 Division "Financial Look Forward", which can be [downloaded here](#).

In that update, I outlined the Division's goal to regularly update our financial position and outlook, and committed to frequently communicate that information to our stakeholders in a consistent and transparent manner to ensure you all have the best information about the Division's path forward. Our plan, as shared in January, is to provide regular "dashboard" updates to the CAB at

each meeting, as well as more detailed financial outlooks and estimated discretionary grant program levels in January, April, June and October of each year.

The Division continues to collaborate closely with CDOT and its Division of Accounting and Finance (DAF) to implement significantly improved revenue forecasting processes and tools, along with a strategy for better communicating those forecasts and expectations with our stakeholders earlier and more frequently. The information presented in this memo is a product of those efforts, which we will continue to implement, refine and improve.

FY 2017 Division Forecasting

The Division of Aeronautics and CDOT's Division of Accounting and Finance have refined and implemented a significantly improved model and method for financial forecasting that will not only allow us to more effectively deploy our funds, but also help us to mitigate the kinds of risks that led to the Division's financial challenges in late 2014. This model, however still relies on forecasting the volume and price of jet fuel sold in the state, which is a difficult task, even for energy-industry experts.

As I briefed this past January, the Division's revenue forecasting philosophy will, at least for the near term given low fuel/oil commodity prices, generally portend a pessimistic view, where jet fuel prices remain low, and discretionary airport grant fund amounts and aggregate levels are adjusted as needed to allow the Division to remain in compliance with the terms of the State Controller's loan, while maximizing investment in our aviation system.

As these forecasts are developed and updated, the Division will communicate these forecasts as early as possible to allow airports to adjust their local budgets and capital improvement programs as necessary. At the present time, the Division's revenue forecasts and associated discretionary grant levels are constrained by three primary factors:

- Continue low oil and jet fuel prices;
- The \$11 million limit of the State Controller's loan to the Division; and
- The April 1, 2020 expiration date of the State Controller's loan

It is not feasible to amend either the amount or length of the State Controller's loan, so the Division will continue to follow a financial path that aligns with the loan terms, a path which in our January 25, 2016 updated was depicted in Scenario C.

Since January, monthly WTI oil price averages have increased about 15% from \$31.70 per barrel (bbl) to \$37.50 bbl in March. However, full year FY16 Division revenues are presently forecasted to be approximately \$16.6 million, a decrease from our January updated forecast amount of \$19.4 million. The January adjustment of FY16 revenues from \$21.8m to \$19.4m was due primarily to amended tax filings from one fuel provider for overpayments of fuel sales taxes they made in FY13. The current adjustment to FY16 revenue from \$19.4m to \$16.6m is due to WTI oil prices remaining at or below \$40 bbl since November. When the FY16 revenue forecast was prepared this time last year, oil prices were in the range of \$60 bbl with the EIA forecasting prices to bottom out in the \$45 bbl range.

On a positive note, there do seem to be more oil industry experts projecting scenarios which could result in moderately increased oil prices over the next few years, and the Division will continue to monitor that industry intelligence for incorporation in to our financial models. In the short term, however, oil prices are not currently expected to change enough to drastically alter our FY17 plans.

April 2016 Update Summary and FY17 to FY20 Discretionary Aviation Grant Program Expectations

As noted above, the goal of the CAB and the Division is to be proactive and diligent about closely monitoring the Division's current and forecast financial position, and communicating that information to airports and other stakeholders as early as possible.

As we communicated in January, and based on our latest update, it would be prudent for airports to continue to plan for the CDAG grant program to continue to match only FAA funded projects in FY17, with a cap on CDAG grants of \$150,000, continuing through FY20. Despite our forecast reduced revenues in FY16, we continue to expect this will be the maximum per airport level of FY17 grant funding for federally-funded projects.

It is important to note that the FY17-FY20 CDAG grant program amounts and caps are not being recommended to the CAB for formal action or establishment at this time - this information is simply the Division's informed view of what impact the current and forecast environment have, barring any

unforeseen changes in the energy market.

At the CAO conference in Durango, staff will again update the CAB and airports on our financial outlook at our June 2nd CAB meeting. We will also revisit these again in early October, prior to this year's Airport and Consultant Workshop scheduled that month.

As we've discussed previously, we continue to believe that being conservative on our revenue forecasts is a much more prudent approach - the Division would rather be in a future position of potentially awarding more grant funds because revenues exceeded our forecasts, rather than reducing funds at the eleventh hour because we were overly optimistic.

As always, please let me, Division Staff or the CAB know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "David Ulane". The signature is fluid and cursive, with a large initial "D" and "U".

David Ulane
CDOT Aeronautics Division Director