



Information only.

## **RECOMMENDATION:**

Information only.

## **FACTS AND FINDINGS:**

To accommodate commercial air service, terminal improvements are needed to accommodate TSA screening and to meet building occupancy and ADA requirements. A security plan and additional FTE are also needed prior to the start-up of commercial air service.

### **1. Terminal Improvements**

Mead & Hunt, the City's airport consultants, prepared a Terminal Capacity Study (Attachment 1) focusing on the minimum levels of terminal improvements necessary to accommodate one flight with up to 149 passengers, with a turnaround time of one hour. Their calculations are based on TSA input, industry standards specified in Airport Cooperative Research Program (ACRP) Report 25 (Airport Passenger Terminal Planning and Design), ACRP Report 226 (Planning and Design of Airport Terminal Restrooms and Ancillary Spaces), the IATA Airport Development Reference Manual (ADRM), and building code requirements.

Based on these guidelines and requirements, minimal necessary improvements include the installation of modular units to expand passenger gate seating space and baggage claim space, utility extensions required to accommodate modular building installation and TSA baggage and passenger screening equipment, and renovations to meet building codes and ADA requirements.

**Cost for Minimal/Mandatory Improvements: \$6.15M** (Includes cost escalation of 13%).

### **2. Other Improvements**

Deferred building maintenance: \$1-\$1.5M (SLE Terminal Assessment - 2019\_FINAL\_20191025)  
These improvements are not necessary to start commercial air service but are highly recommended. It is not advised to connect new modular units to the existing building without addressing the exterior building weather envelope, including roof repairs, replacement of rotted siding, repair of parapet walls, roof drain modifications to ensure proper drainage of rainwater away from the building, installation of a fire alarm system, and upgrades to aging mechanical and electrical services.

150 Vehicle parking spaces: Approx. \$1M. (with drainage, lighting, access control, and kiosk/gate). This is not necessary to initiate commercial air service but will be needed in the near term to provide passenger parking. This will provide enhanced revenue.

Backup power generator: \$500,000

**Cost for Other Improvements: \$3.25M**

**Total Cost - All Improvements: \$9.4M**

### 3. Debt Service

Estimated annual debt service for improvements is based on 6% interest and a 20-year term. Debt service calculations also assume that an amendment to the Fairview Urban Renewal Area (FURA) occurs to include portions of the airport into the FURA boundary and plan, allowing approximately \$2M cash-on-hand to be used for needed infrastructure, thus lowering the amount to be financed. Approximately 60% of the amount borrowed is paid back in interest over the life of the loan.

**Debt service for minimum/mandatory terminal improvements: \$375,000.**

**Other improvements: \$279,000 (includes expanded parking)**

**Total Debt Service: \$654,000**

### 4. Revenue and Expense Projections (Operations)

Commercial air service will increase both airport revenues and operational expenses. Revenue includes increases in vehicle parking fees, fuel flowage fees, rental car commissions, terminal space leases, and an advertising program. Estimates are based on the airport's current rates and fees and assume a 50% increase in daily parking rates. Most of the added revenue in the first two years (\$272,000 annually) is from higher usage of the existing parking lot.

After the two-year waiver period expires, and assuming growth to 16 flights/week, landing fees would add an additional \$166,000 in revenue annually. Other rate and fee increases, and projected expansion of service to 16 flights/week, would increase annual revenue from all sources.

	<u>Base Revenue</u>	<u>With Expanded Parking</u>
Years 1 and 2:	\$400,000-\$500,000	\$672,000-\$772,000
Year 3:	\$666,000	\$938,000
Year 5:	\$883,000	\$1,155,000

If FURA cash-on-hand is used to lower the amount to be financed and annual debt service, and assuming the airline(s) maintain service out of Salem, revenues would be sufficient to pay for debt service. Without using FURA cash-on-hand or other funding used to lower the amount to be financed, revenue will not be sufficient to cover debt service until after Year 3.

## 5. Operational Expenses

Operational expenses, in addition to debt service, include additional airport staff for security and operations staff and related costs, increased vehicle and equipment maintenance and fuel costs, increased custodial services, additional supplies, utilities, and similar costs directly connected to air service. Most of the added airport operational expenses are the addition of 4.5 FTE, which will cost approximately \$565,000 in Year 1 and increase by 3.5% each year thereafter.

### **Airport Operations - Annual Expenses including 4.5 FTE: \$650,000 (excluding salary/COLA increases)**

The Salem Fire Department currently maintains nine fully trained Aircraft Rescue Firefighters on staff at Fire Station 6 to comply with existing FAA requirements for commercial service airports. Previously, Station 6 suspended community calls to keep personnel in the station during commercial air service operations. That model may not be possible with the increase in community calls. As such, the return of scheduled commercial service flights will require that *at least* one firefighter remain at the station during air carrier operations, irrespective of other calls for service. To ensure that the remaining firefighters are available to respond to calls off the airport, Salem Fire Department proposes to increase its staffing level by one FTE per shift, for a total of 3 FTE.

During commercial airline operations, the airport security plan will require that Salem Police Department have an officer on site when the TSA security checkpoint is open. Depending on the number of flights per day/week that could be anywhere from .25 to .5 to 1.0 FTE.

Neither Fire nor Police are sufficiently staffed to re-deploy current staff from existing assignments to the airport.

### **Fire Operations - Annual Expenses for 3 FTE, including annual training: \$633,000 (excluding salary or COLA increases)**

### **Police Operations - Annual Expenses for 1 FTE: \$150,000 (excluding salary or COLA increases)**

The Fire Department also maintains an Aircraft Rescue and Firefighting Apparatus (ARFF truck) that must be replaced due to age and condition. This equipment is included in the upcoming bond package. If the bond is not approved by voters in November 2022, alternate funding will be needed to procure a replacement ARFF truck at slightly over \$1M.

### **Total Annual Operational Expenses (excluding debt service and salary or COLA increases): \$1,433,000**

### **Total Annual Operational Expenses (including debt service and excluding salary or COLA increases):**

**Minimum Improvements: \$1,808,000**

**All Improvements: \$2,087,000**

**6. Revenues vs. Expenses (excluding inflation, salary, or COLA increases)**

**Minimum Improvements:**

	Revenues	Expenses	Total
Year 1	\$500,000	\$1,808,000	-\$1,308,000
Year 5	\$883,000	\$1,808,000	-\$925,000

**All Improvements:**

	Revenues	Expenses	Total
Year 1	\$772,000	\$2,087,000	-\$1,315,000
Year 5	\$1,155,000	\$2,087,000	-\$932,000

By Year 5, revenue is expected to grow to approximately \$880,000 - \$1,155,000 depending on which improvements are constructed, but expenses will also increase.

In all scenarios, forecasted expenses exceed revenues and subsidy ranging from \$925,000 to \$1,308,000 will be necessary on an annual basis until additional revenues are realized and debt service is retired.

Assuming a 3% annual increase in both revenues and expenses, by Year 20, when debt service is retired, expenses will exceed revenues by about \$1.1M a year. It is likely that expenses will increase at a rate higher than 3% a year. Revenues may also grow at more than 3% a year, but they could also decrease.

Currently, the Airport fund has insufficient resources to bridge this financial gap. There is \$1,151,200 fund balance, expected to decrease to \$981,000 by the end of FY2023 absent any changes related to commercial air service. Fund balance resources are reserved as a match for federal grants and to fund unanticipated facility needs.

In the federal fiscal year after the airport records 10,000 passenger enplanements, the airport would be eligible for an additional \$850,000 in annual federal grant funding. These funds are for FAA-approved capital improvement projects and cannot be used as a resource to fund airport operations and maintenance. Any future terminal projects not included in the current project will have to be approved by the FAA, will be 3-5 years out, and will compete for funding with other airfield improvement projects identified in the upcoming master plan update. Future Passenger Facility Charges (PFCs) are also for capital improvement projects and cannot be used to offset operational expenses.

A new financial resource will be required to fill the gap between revenues and expenses until such time that the airport budget demonstrates that it is financially self-sustainable through growth in

commercial air service, higher rates and fees, lower than expected expenses, or a combination thereof.

## 7. Funding Options

Fairview Urban Renewal Area funds may be available to offset approximately \$2M of total project costs. This will require a boundary and plan amendment. Depending on the final amount of acreage to be included in the amendment, a substantial amendment as defined in ORS 457 may be required, which could take approximately 9 months and would require concurrence from other taxing districts. Without a substantial amendment as defined in ORS 457, the process should take less than six months and concurrence would not be required.

Financial resources will be needed immediately to expedite design, procurement, and construction of needed improvements. If Fairview Urban Renewal Area resources are used, the balance of project funding (\$4.15M - \$7.4M) could come from:

1. A direct General Fund allocation
2. A direct Transient Occupancy Tax (TOT) fund allocation
3. A combination of General Fund and TOT allocations
4. Debt, with debt service paid by new Revenues, the General Fund, or TOT

Debt options include private placement or a loan through Business Oregon's Special Public Works Fund (SPWF) program. Application for the SPWF program requires a site plan, project cost estimates, and other materials. The Infrastructure Authority Board (IFA Board) meets quarterly, with upcoming meetings in December 2022 and February 2023. Applications must first complete Business Oregon staff review before presentation to the IFA Board for approval.

Other funding may be available, but not immediately. A State legislative award could potentially fund the balance of infrastructure costs, but would not be available, if awarded, until the middle of 2023. Also worthy of longer-term consideration is the creation of a Port Authority or Special Airport Taxing District.

## 8. Project Timeline - Design, Permitting, and Construction

Once a funding solution has been approved, both interior and exterior infrastructure projects will follow a similar critical path timeline for completion. City Public Works staff and airport consultants have tried to develop the most time-efficient path forward following FAA requirements and State and City laws and codes. We are currently in a very challenging construction market and both public and private projects are experiencing delays due to labor and material availability. The critical path elements to move this project forward after funding include:

- project design (4-6 months)
- site plan review (3-5 months)

- FAA review and approval (planning, environmental and airspace analysis) (6-9 months)
- permitting (2-3 months)
- procurement/bidding (2-3 months)
- contracting (1-2 months)
- construction/installation (6+ months; could be impacted by material and labor availability)

City engineering staff and airport architectural consultants have estimated that the project(s) will take **16** months after funding, from start to finish, subject to delays due to material and labor availability (See Attachment 1, Pg. 15). While some areas of the critical path may be fast-tracked, others will not. Several of these steps occur concurrently or with some overlap. Every effort can be made to compress the timeline where possible, but a realistic project completion date will not align with the airlines' desired start dates in spring 2023. Spring 2024 is a more likely target start season.

Development of a security plan and hiring of needed staff would occur within the project development and construction timeline.

## **BACKGROUND:**

In April 2022 staff provided an information report to City Council on the several required steps to accommodate commercial air service at the Salem Airport. A letter of interest received in March 2022 from Express Jet (dba AHA! Airlines), which has since declared bankruptcy, spurred the initial conversations and subsequent site visits in April from TSA and the airport's aviation consultants. Two other low-cost carriers continue to express interest in serving the Salem market.

In July 2022 staff returned to City Council during its Policy Agenda meeting to discuss the estimated costs for infrastructure improvements, staffing requirements, other operational costs, and potential revenue associated with commercial air service. Council directed staff to refine some of the costs associated with terminal renovations and expansion, identify potential funding sources, and present a realistic timeline that improvements could be completed and ready for passenger service.

In August 2022 staff met in person with its planning and architectural consultants, two members of the City Council, several members of the Fly Salem committee, and a representative from Business Oregon to further discuss potential project scope, funding sources, and projected timelines. Staff asked its consultants to further refine the renovation/expansion options, develop a project timeline, and return to staff with updated information to present to City Council.

Staff is continuing its work procuring ground service equipment and developing a new airport security plan for TSA review and approval.

John Paskell  
Airport Manager

## **Attachments:**

1. Terminal Capacity Study, September 2022.

