



Chapter Six

FINANCIAL PLAN

FINANCIAL PLAN

This chapter of the Master Plan report describes the financial plan for implementing the recommended master plan concept for Kona International Airport at Keahole (KOA) as described in Chapter Five. It provides discussion of (1) the 20-plus year capital needs program (CNP), (2) the Financial Plan for the five year capital improvement program (KOA CIP) that identifies priority projects, by year from 2008 to 2012, (3) the funding sources available for airport improvements, and (4) impact of the Financial Plan on factors such as revenues and expenses.

This chapter begins with a review of the statewide financial structure.

FRAMEWORK OF CURRENT AIRPORTS SYSTEM FINANCIAL OPERATIONS

Under the provisions of the Hawaii State Government Reorganization Act of 1959, the State of Hawaii Department of Transportation, Airports Division (DOT-A) was established on July 1, 1961, to succeed the Hawaii Aeronautics Commission. DOT-A is one of three divisions within the State's Department of Transportation, and has jurisdiction over and control of all State of Hawaii airports and air navigation facilities, as well as general supervision of aeronautics within the State. The Hawaii Airports System is operated as an enterprise fund of the State.



The Airports Division operates all 15 State airports as a single integrated system for management and financial purposes. As such, DOT-A establishes policies, rules and regulations; approves contracts and expenditures; and develops its annual operating and capital budgets for the statewide system. In addition, DOT-A is responsible for certain strategic business arrangements and other administrative and managerial functions, such as negotiation of airline agreements, regulation of aeronautical rates and charges, compliance with grant assurances, development of marketing and development policies, and preparation of long-range plans.

The financial operations of the Airports System are governed by the following documents:

- Hawaii Revised Statutes, as amended, and as related to Airports;
- The Certificate of the Director of Transportation of the State of Hawaii, dated May 1, 1969, as amended and supplemented (the Certificate);
- Agreements with the airlines providing for use of the Airports System and the payment of terminal rentals, landing fees, and certain other charges;
- Concession agreements and leases with other tenants located on Airport (including those associated with food and

beverage, merchandise, rental cars, automobile parking, ground transportation, and other services);

- FAA approvals to collect Passenger Facility Charges (PFC) and use PFC revenues for Airport improvements for the 5 primary State airports;
- Federal statutory and constitutional provisions, including but not limited to the Aviation and Transportation Security Act, the Anti-Head Tax Act of 1973, the Airport and Airways Improvement Act of 1982, the Interstate Commerce Clause of the United States Constitution, the PFC Act of 1990, and Vision 100 – Century of Aviation Reauthorization Act of 2003 (Vision 100) as extended;
- U.S. Department of Transportation policies mandated by the FAA Authorization Act of 1994 related to airport rates and charges, rules for resolving disputes and revenue diversion;
- Generally accepted accounting principles;
- Various policies adopted by the State.

Certain of the governing documents mentioned above, with most relevance to this Master Plan project, are discussed in more detail below.

HAWAII REVISED STATUTES (HRS)

As provided in Section 261-5(a), Hawaii Revised Statutes, Airports Division (DOT-A) is required to generate revenues sufficient to meet all of the expenditures of the Statewide Airports System. Hawaii's airports are thus developed, operated, and maintained on a self-sustaining basis.

State Capital Budget and Project Approval Process

Pursuant to Section 226-52, capital expenditures are approved through the capital improvement project appropriations process. The appropriation of funds for major plans and projects are prepared every Fiscal Year in a statewide Capital Improvement Program (CIP) for the ensuing 6 Fiscal Years, setting out the capital projects that it proposes to undertake during those 6 years. The CIP is reviewed with the State's Department of Transportation and Department of Budget and Finance before being presented by the Department of Transportation to the Governor. Following the Governor's review, the first 2-year component of the 6-year program (known as the Biennium Budget) is submitted to the State Legislature for approval. The Legislature reviews the Biennium Budget and authorizes all or a portion of the budget by project. This authorization of a project (or component of a project) includes identification of the "means of financing," that is, the sources of funds that will be made available for the project. For the Hawaii Airports System, four

sources of financing are used: Airports System Revenue Bonds (ASR Bonds), federal funds (from FAA and TSA), PFC revenues, and special funds (internally generated funds from the operation of the Airports System). The Legislature's appropriation of bond funds for a project serves as authorization for the State to issue those bonds when required in the future.

It should be noted that the capital projects in this financial analysis for KOA reflect projects with appropriations in the Biennium Budget, and the approved 6-year CIP. In addition, this analysis encompasses additional projects proposed in the comprehensive Capital Needs Program prepared for the Airport's Master Plan. Those additional projects are to be considered by the Airports Division for future development based on realization of demand, and would need authorization and appropriation by the Governor and Legislature. As of the date of this report, such authorizations and appropriations have neither been sought nor received. Any long-term capital program is subject to change based on changing demand and circumstances.

THE CERTIFICATE

The Certificate requires that airline rates and charges collected for the Hawaii Airports System be established each Fiscal Year to generate Revenues that, together with the proceeds of the Aviation Fuel Taxes (currently two cents per gallon of avia-

tion fuel), will be sufficient to pay all operating and maintenance expenses, pay all indebtedness payable from Revenues and Aviation Fuel Taxes, and make deposits required to the funds and accounts established in the Certificate. Additionally, the State pledges to establish sufficient rates, rentals, fees and charges to yield Revenues and Taxes at least equal to 125% of the Debt Service Requirements for said Fiscal Year. These provisions are referred to collectively as the Rate Covenant. Passenger Facility Charge (PFC) revenues are not defined as part of Revenues for purposes of calculating the Rate Covenant unless they are specifically pledged for that purpose.

AIRPORT-AIRLINE LEASE AGREEMENT

In 1962, DOT-A entered into an airport-airline lease agreement with the Signatory Airlines to provide those airlines the nonexclusive right to use Airports System facilities, equipment improvements, and services in addition to occupying certain premises and facilities. The Signatory Airlines operated under the terms of the lease agreement through June 30, 1994.

In June 1994, DOT-A and the Signatory Airlines executed an agreement to extend the airport-airline lease agreement to June 30, 1997 (the Three-Year Extension). Under the Three-Year Extension, the Signatory Airlines continued to operate under the terms of the lease agreement with certain modifications, including a cost-center residual landing fee calculation,

appraisal-based terminal rental rates, and a systemwide residual rate-setting methodology in the form of an Airports System Support Charge (ASSC) calculated to recover any remaining residual costs of the Airports System necessary to meet the requirements of the Rate Covenant. From July 1, 1997, through December 31, 2007, DOT-A and the Signatory Airlines mutually agreed that the airlines would continue to operate under the terms of the Three-Year Extension, which provided for an automatic extension on a quarterly basis unless either party provides 60 days written notice of termination to the other party.

In October 2007, DOT-A and 30 airlines serving Hawaii executed the First Amended Lease Extension Agreement (the Amended Lease Extension), effective January 1, 2008.¹ The Amended Lease Extension amended the methodology for calculating Signatory Airline rates and charges by (1) retaining the cost-center residual landing fee calculation, (2) changing the calculation of terminal rental rates for the five primary airports in the Airports System from appraisal-based to cost-center residual, with discounted Neighbor Island terminal rental rates increasing by 5% every year from 60% of full cost-recovery rates in FY 2008 to 100% for FY 2016 and beyond to make the Neighbor Island airports increasingly self-sufficient, and (3) retaining the systemwide residual ASSC to recover

¹ There are currently a total of 27 Signatory Airlines – ATA and Aloha Airlines subsequently ceased service, and Island Air has since terminated its signatory lease.

any remaining residual costs of the Airports System necessary to meet the requirements of the Rate Covenant. Neighbor Islands include each of the primary airports except Honolulu International.

For purposes of this Master Plan, the Airport-Airline Lease Agreement, the Three-Year Extension, and the Amended Lease Extension are collectively referred to as the Airline Agreements.

OTHER AGREEMENTS

In addition, DOT-A has operating agreements with other, nonsignatory passenger airlines providing for the use of the Airport and for the payment of landing fees and other charges. DOT-A has also entered into numerous agreements with concessionaires and other tenants for the operation of concessions and other services at the Airport, including car rentals and ground transportation services.

AIRPORT CAPITAL NEEDS PROGRAM

The recommended improvements are grouped by planning horizon: short term (FY2008 – FY2012), intermediate term (FY2013 – FY2017), and long term (FY2018-FY2030). The short term planning horizon contains projects of highest priority (collectively referred to as the “Early Works” projects), including but not limited to those already identified in the statewide CIP, and those relating to meet-

ing safety design standards. As short term improvements are completed, DOT-A would begin programming the intermediate term projects, and finally the long term needs.

The development of the recommended master plan concept is intended to follow demand driven indicators. For example, the plan anticipates the construction of a parallel runway to accommodate general aviation operations in the intermediate term. Increased air traffic will be the indicator for the need of the runway and the timing of the construction will depend on meeting that demand. Some development items, such as major maintenance of existing facilities at the Airport are intended to meet FAA standards and would not be considered demand driven.

Rough order-of-magnitude cost estimates were prepared for the recommended master plan concept projects based on assumptions specific to the islands. The project costs include allowances for design, construction and program management fees, and contingencies. Capital costs presented here are reasonable for planning purposes and would require further refinement during the design phase of implementation.

Table 6A presents a summary of estimated project costs (in 2008 dollars) for the capital needs program (CNP) in the planning period during which those costs are proposed to occur. A brief description of the projects was included in the Demand-Based Capital Needs Plan section of Chapter Five.

The 20-year capital needs program for KOA focuses heavily on meeting FAA design standards for safety, improving overall airfield capacity, and providing developable space for landside facilities to accommodate forecasted growth of based aircraft.

The 20-year investment total is approximately \$745 million. Projects eligible for FAA grant assistance total approximately \$310 million. Therefore, an estimated \$435 million would fall under other funding sources including private financing and Airports System Special Funds. It should be noted that although a project is eligible for federal funding, there is no guarantee that the project will receive federal funding. Nationwide, AIP eligible airport projects typically exceed AIP funding availability by a wide margin.

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Financial projections were prepared to emphasize projects to be implemented over the short-term planning period. The projections have been prepared incorporating projects from (1) the statewide capital improvement program, (2) terminal and landside development under the Recommended Master Plan Concept, and (3) ongoing renewal and replacement and major maintenance of the Airport. This section presents a summary of those project costs incorporated in the financial projections. An inflation assumption of 2.5% per year has been added to master plan cost estimates through the anticipated year of project implementation.

For purposes of funding the Financial Plan, it was assumed that the rate-making formulas of the current Airline Agreements will remain in effect through the planning period.

Table 6B presents the projects in the Financial Plan and their estimated funding sources by year through the planning horizon described in Section 2 of this report.

The actual timing of construction, or implementation of the individual projects included in the Financial Plan are contingent on the receipt of all required environmental or other regulatory approvals. In addition, the availability of funds is based on (1) the capacity of funding within the statewide CIP and (2) the amount of funds the Airport could expect to receive from these sources based on the eligibility of such projects. It was also assumed that DOT-A will be able to issue bonds in accordance with the Certificate and the Amended Lease Extension Agreement as needed.

It should be noted that the level of capital spending for KOA in the short-term period (through 2012) described herein would most likely not be financially viable based on the underlying economics of KOA as a stand-alone airport. The level of debt issuance needed to complete all the projects likely could not be supported by the revenues that would be generated solely from the operation of the Airport. The 15-airport Hawaii Airports System would need to support the initial development as activity and revenue opportunity grow at KOA.

TABLE 6A
Master Plan Capital Needs Plan
(in 2008 Dollars)

	Capital Needs Plan			Eligible Funding Sources			
	Short Term FY08 - FY12	Intermediate FY13-FY17	Long Term FY18-FY30	Total FY08-30	PFC Eligible Amount	AIP Eligible Amount	TSA Eligible Amount
Airfield							
Terminal Apron Expansion West	\$ 9,419,000	\$ 6,232,000	\$ -	\$ 15,651,000	\$ 15,651,000	\$ 14,868,450	\$ -
Runway 17-35 - Taxiway E improvements	-	5,994,000	4,562,000	10,556,000	10,556,000	10,028,200	-
Parallel Runway 17R-35L	-	18,289,000	47,065,000	65,354,000	65,354,000	62,086,300	-
Taxiways G & F West & South of KATR	-	272,000	19,994,000	20,266,000	20,266,000	19,252,700	-
Taxiway Renovations & Improvements	-	5,141,000	30,014,000	35,155,000	35,155,000	33,397,250	-
Airfield Lighting	-	675,000	-	675,000	675,000	641,250	-
Other Airfield	-	6,511,000	-	6,511,000	6,511,000	6,185,450	-
	\$ 9,419,000	\$ 43,114,000	\$ 101,635,000	\$ 154,168,000	\$ 154,168,000	\$ 146,459,600	\$ -
Terminal Area							
Terminal Expansion	\$ 94,772,000	\$ 133,328,000	\$ 203,100,000	\$ 431,200,000	\$ 301,840,000	\$ 142,296,000	\$ 2,120,400
Parking Lot Expansion	-	6,585,000	3,629,000	10,214,000	-	-	-
	\$ 94,772,000	\$ 139,913,000	\$ 206,729,000	\$ 441,414,000	\$ 301,840,000	\$ 142,296,000	\$ 2,120,400
Parking & Roadway							
Employee Parking Expansion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Roadways	-	2,430,000	5,184,000	7,614,000	7,614,000	7,233,300	-
	\$ -	\$ 2,430,000	\$ 5,184,000	\$ 7,614,000	\$ 7,614,000	\$ 7,233,300	\$ -
Cargo Area							
Phase I	\$ -	\$ 41,731,000	\$ -	\$ 41,731,000	\$ -	\$ -	\$ -
Phase II	-	-	35,738,000	35,738,000	-	-	-
	\$ -	\$ 41,731,000	\$ 35,738,000	\$ 77,469,000	\$ -	\$ -	\$ -
General Aviation							
Aircraft Wash Rack	\$ 743,000	\$ -	\$ -	\$ 743,000	\$ -	\$ -	\$ -
Commuter Terminal (CAT)	3,578,000	-	11,340,000	14,918,000	-	-	-
Apron Expansion	-	5,164,000	4,050,000	9,214,000	-	-	-
GA Auto Parking	122,000	-	122,000	244,000	-	-	-
Roadway Access	491,000	491,000	-	982,000	-	-	-
	\$ 4,934,000	\$ 5,655,000	\$ 15,512,000	\$ 26,101,000	\$ -	\$ -	\$ -
Heliport							
Site Preparation	\$ 3,897,000	\$ -	\$ -	\$ 3,897,000	\$ -	\$ -	\$ -
Roadway Access	3,856,000	-	-	3,856,000	-	-	-
Phase I	6,028,000	-	5,184,000	11,212,000	-	-	-
Phase II	-	-	1,583,000	1,583,000	-	-	-
	\$ 13,781,000	\$ -	\$ 6,767,000	\$ 20,548,000	\$ -	\$ -	\$ -
Other							
ARFF Station Installation	\$ 17,288,000	\$ -	\$ -	\$ 17,288,000	\$ -	\$ -	\$ -
Utilities Master Plan	500,000	-	-	500,000	-	16,423,600	-
Airport Administration Facility	-	10,000,000	-	10,000,000	-	-	-
Regional ARFF Training Facility	-	25,000,000	-	25,000,000	-	-	-
	\$ 17,788,000	\$ 35,000,000	\$ -	\$ 52,788,000	\$ -	\$ 16,423,600	\$ -
Capital Needs Program Total	\$ 140,694,000	\$ 267,843,000	\$ 371,565,000	\$ 780,102,000	\$ 463,622,000	\$ 312,412,500	\$ 2,120,400

TABLE 6B
Master Plan Short-Term Financial Plan (with Anticipated Funding Sources)
(in 2.5%/year Escalated Dollars)

	2008	2009	2010	2011	2012	Short Term FY08 - FY12	AIP	PFC Pay-go	Special Funds	ASRB	PFC Bond	TSA	Third Party	Total
Airfield														
Terminal Apron Expansion West	\$ -	\$ -	\$ -	\$ 9,895,837	\$ -	\$ 9,895,837	\$ -	\$ -	\$ -	\$ 9,895,837	\$ -	\$ -	\$ -	\$ 9,895,837
Runway 17-35 - Taxiway E Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Parallel Runway 17R-35L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxiways G & F West & South of KATR	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxiway Renovations & Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airfield Lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Airfield	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ 9,895,837	\$ -	\$ 9,895,837	\$ -	\$ -	\$ -	\$ 9,895,837	\$ -	\$ -	\$ -	\$ 9,895,837
Terminal Area														
Terminal Expansion	\$ -	\$ -	\$ 8,661,250	\$ 65,138,750	\$ 26,191,918	\$ 99,991,918	\$ -	\$ 3,900,000	\$ 19,632,347	\$ 54,402,956	\$ 22,056,615	\$ -	\$ -	\$ 99,991,918
Parking Lot Expansion	\$ -	\$ -	\$ 8,661,250	\$ 65,138,750	\$ 26,191,918	\$ 99,991,918	\$ -	\$ 3,900,000	\$ 19,632,347	\$ 54,402,956	\$ 22,056,615	\$ -	\$ -	\$ 99,991,918
	\$ -	\$ -	\$ 8,661,250	\$ 65,138,750	\$ 26,191,918	\$ 99,991,918	\$ -	\$ 3,900,000	\$ 19,632,347	\$ 54,402,956	\$ 22,056,615	\$ -	\$ -	\$ 99,991,918
Parking & Roadway														
Employee Parking Expansion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Roadways	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cargo Area														
Phase I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Phase II	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Aviation														
Aircraft Wash Rack	\$ 743,000	\$ -	\$ -	\$ -	\$ -	\$ 743,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 743,000	\$ 743,000
Commuter Terminal (CAT)	3,578,000	-	-	-	-	3,578,000	-	-	-	-	-	-	3,578,000	3,578,000
Apron Expansion	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GA Auto Parking	-	-	125,050	-	-	125,050	-	-	-	-	-	-	125,050	125,050
Roadway Access	-	-	-	-	528,753	528,753	-	-	-	-	-	-	528,753	528,753
	\$ 4,321,000	\$ -	\$ 125,050	\$ -	\$ 528,753	\$ 4,874,803	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,874,803	\$ 4,874,803
Heliport														
Site Preparation	\$ -	\$ -	\$ -	\$ -	\$ 4,196,643	\$ 4,196,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,196,643	\$ 4,196,643
Roadway Access	-	-	-	-	4,152,490	4,152,490	-	-	-	-	-	-	4,152,490	4,152,490
Phase I	-	-	-	-	6,491,497	6,491,497	-	-	-	-	-	-	6,491,497	6,491,497
Phase II	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ 14,840,630	\$ 14,840,630	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,840,630	\$ 14,840,630
Other														
ARFF Station Installation	\$ -	\$ -	\$ 17,720,200	\$ 525,312	\$ -	\$ 17,720,200	\$ 15,271,250	\$ -	\$ 803,750	\$ 1,645,200	\$ -	\$ -	\$ -	\$ 17,720,200
Utilities Master Plan	-	-	-	-	-	525,312	-	-	525,312	-	-	-	-	525,312
	\$ -	\$ -	\$ 17,720,200	\$ 525,312	\$ -	\$ 18,245,512	\$ 15,271,250	\$ -	\$ 1,329,062	\$ 1,645,200	\$ -	\$ -	\$ -	\$ 18,245,512
Financial Plan Total	\$ 4,321,000	\$ -	\$ 26,506,500	\$ 75,559,899	\$ 41,561,301	\$ 147,948,700	\$ 15,271,250	\$ 3,900,000	\$ 20,961,409	\$ 65,943,993	\$ 22,056,615	\$ -	\$ 19,815,433	\$ 147,948,700

The capital program described herein could be undertaken by the State in a manner consistent with the funding sources and amounts noted in the next section below, whilst maintaining the overall financial viability of the Statewide airport system. Proceeding in this manner could, however, necessitate the need to reduce capital spending (and associated future bond issuance) at other airports in the system, so as to limit overall bond issuance for the system at a level equivalent to that described in the draft Preliminary Official Statement for the Series 2008 bonds, and as discussed with the Bond Rating Agencies in September 2008.

FINANCIAL ANALYSIS ASSUMPTIONS

The Financial Plan was developed using information and assumptions that provide a reasonable basis for analysis at a level of detail appropriate for an airport master plan. Some of the assumptions used to develop project funding and estimated costs may not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results will vary from those projected, and such variations could be material. This Financial Plan is preliminary in nature and is not intended to be used to support the sale of bonds or to obtain any other forms of financing. More detailed cost estimates and financial analysis will be required if and when DOT-A decides to pursue the sale of bonds or to obtain any other forms of financing.

Some projects included in the recommended master plan concept will be postponed or eliminated if forecast aviation demand is not achieved, construction costs rise significantly, or if project funding is not available. Similarly, projects may be undertaken earlier if indicated demand dictates earlier implementation, and funding is available.

SOURCES OF FUNDING

The major sources of funds that could be applied to projects in the recommended master plan concept are discussed below. The amount of funding available from these sources will depend primarily on (1) future levels of aviation activity at KOA, (2) availability of funds based on the statewide CIP, (3) future PFC approvals and grant authorizations, and (4) changes resulting from the reauthorization of federal funding programs.

AIRPORT IMPROVEMENT PROGRAM GRANTS

FAA grants from the Airport Improvement Program (AIP) are funded through the Airport and Airway Trust Fund with revenues from federal aviation user fees and taxes. Capital projects that are eligible for funding include those improvements related to enhancing airport safety, capacity, security, and environmental concerns. In general, AIP funds can be used for most airfield capital improvements or repairs except those for terminals, hangars, and nonaviation development. Any professional services that

are necessary for eligible projects - such as planning, surveying, and design - are eligible as is runway, taxiway, and apron pavement maintenance. Aviation demand at the airport must justify the projects, which must also meet Federal environmental and procurement requirements. KOA is a small-hub airport, and the AIP grants cover up to 95% of eligible costs under existing procedures (which may be amended based on future AIP reauthorizations).

- AIP primary entitlement grants are apportioned by the FAA on the number of passenger enplanements (boardings) at an airport. Based on the forecast described in chapter 2, as a stand-alone airport, KOA is eligible to receive approximately \$4.5 million per year from this funding source.
- AIP cargo entitlement grants are provided to qualified cargo service airports and share the 3.5 percent of AIP apportionment made available to them for AIP eligible projects. Cargo entitlement funds are apportioned in the same proportion as its proportion of landed weight of cargo aircraft to the total landed weight of cargo aircraft at all qualifying airports. Based on historical trends, it is assumed that KOA will be eligible to receive approximately \$200,000 per year based on landed weight generated at the airport.
- AIP discretionary grants are selectively distributed based on the competitiveness of proposed projects within the FAA Western Re-

gion pursuant to the national priority system established by the FAA, and designations by Congress.

Since the expiration of the Century of Aviation Reauthorization Act (Vision 100) on September 30, 2007, the FAA has continued to operate under a series of short term resolutions. On September 30, 2008, President Bush signed into law a short term extension to March 6, 2009. The continuing resolution will fund the aviation program at current levels for more than five months, or until Congress passes the fiscal year 2009 appropriations bill. The next multi-year reauthorization legislation has not yet been enacted. For purposes of analysis, it is assumed that the FAA multi-year programs would provide funding similar to the programs in the past. As noted earlier, on a nationwide basis AIP eligible project costs typically exceed AIP funding availability by a wide margin.

During the short term analysis, AIP funds are assumed to be available to fund approximately \$15.3 million of the project costs for the ARFF Station Installation anticipated to occur in FY 2010. AIP funds are not assumed to provide funding for any other projects during this planning period.

DOT-A receives federal funding as a statewide Airports System and distributes funds based on priority and at the discretion of Airports System management. The availability of AIP funds during the intermediate and long term planning periods are contingent on the priority of the project in the statewide CIP and the funding capacity of the federal program.

PASSENGER FACILITY CHARGES (PFCs)

PFCs are approved by the FAA and are collected by the airlines from qualified enplaned passengers to fund eligible projects. A PFC of up to \$4.50 per eligible enplaned passenger can be imposed by an airport operator. Projects that are eligible for PFC funding are those that (1) preserve or enhance the capacity, safety, or security of the air transportation system, (2) reduce noise or mitigate noise effects, or (3) furnish opportunities for enhanced competition between or among air carriers. PFCs cannot be used for commercial facilities such as restaurants and other concession space, rental car facilities, public parking facilities, or construction of exclusively leased space or facilities at airports.

The State has been authorized by the FAA to impose a \$4.50 PFC on eligible passengers enplaned at KOA. The State does not charge PFCs to: (1) Interisland passengers, or (2) Nonrevenue passengers, as similarly defined and implemented at other U.S. Airports.

DOT-A has collected \$2.5 million in PFC revenues at KOA through FY 2008. Approximately \$3.9 million is assumed to be made available on a pay-as-you-go basis throughout the short-term forecast period. In FY 2009 and beyond, it was assumed that DOT-A would (a) submit PFC applications for Terminal Expansion projects, and (b) issue PFC-supported bonds to finance costs associated with the project.

TRANSPORTATION SECURITY ADMINISTRATION (TSA) GRANTS

After the terrorist attacks of September 11, 2001, Congress passed the Aviation and Transportation Security Act (ATSA), creating the Transportation Security Administration (TSA) and mandating the implementation of explosive detection systems (EDS) at U.S. Airports.

For the airport to receive consideration of TSA funding for the EDS System, the project design must be at least 30% complete. Upon approval, DOT-A must begin the project within three years, and must complete construction within six years from the date of application submittal. Funding for the project would be provided through (1) a negotiated TSA Other Transaction Agreement (OTA) or (2) a multi-year letter of intent (LOI). Through 2004, TSA entered into multi-year LOIs with eight (8) airport operators for in-line EDS at nine airports, Atlanta, Boston, Dallas/Fort Worth, Denver, Las Vegas, Los Angeles/Ontario, Phoenix and Seattle. The Office of Management and Budget has since prevented issuance of additional LOIs but recently indicated two-year LOIs may be entered into. Any future OTA or LOI for EDS project(s) at KOA would specify the agreed upon cost-sharing for facility modifications to accommodate optimal in-line EDS. Project costs include planning and design.

In FY 2005, TSA provided DOT-A with an OTA for up to \$9.5 million in TSA

funding associated with the infrastructure costs to accommodate in-line EDS at the Lihue Airport on the island of Kauai. In conjunction with the expansion of the terminal, the Access Control and Closed-Circuit Televisions System at KOA are assumed for a smaller amount of \$500,000 in funding from the TSA.

CUSTOMER FACILITY CHARGES (CFCs)

In July 2008, the State Legislature passed a bill (SB 2365-HD1) authorizing the Airports Division to establish and collect a \$1 CFC per transaction day for travelers who rent cars at the State's primary airports.

The CFC was implemented beginning September 1, 2008, for all rental car transactions on airport. Moneys collected through the CFC are to be deposited into a restricted fund that can only be used to fund the construction of new consolidated rental car facilities and other improvements needed for on-airport rental car operators and associated operating costs.

The CFC is expected to be adjusted as necessary to generate sufficient funds to construct consolidated rental car facilities or make other improvements at certain airports including KOA. DOT-A has begun preliminary discussions with the rental car agencies on what modifications are needed at KOA. For purposes of analysis, no Airports System Revenues are expected from this revenue source, and no capital project costs have been estimated.

SPECIAL FUNDS (CASH)

In the past, DOT-A has used internally generated funds from Airport operations to fund projects in the Airport System. Under the Certificate, internally generated funds are deposited in the Revenue Fund at the end of each Fiscal Year (after all other uses of those funds) and can be used for any lawful Airport System purpose.

It was assumed that the projected internally generated funds from the future operations of KOA would be available to fund certain portions of the project costs. For purposes of financing the KOA CIP, Special Funds are assumed to pay the matching local share of AIP eligible projects as well as a portion of the costs associated with the Terminal Expansion.

TENANT AND THIRD-PARTY FUNDING

In recent months, DOT-A has begun initiatives to fund capital costs at KOA through tenant and third-party funding. For purposes of this analysis, capital costs associated with the following projects are assumed to be funded through such initiatives:

- General Aviation Land Development. DOT-A could seek a Request For Proposals (RFP) inviting submissions of proposals for development of corporate/general aviation support facilities at KOA, including, but not limited to, storage hangars, maintenance facilities and/or aircraft parking, and associated infrastructure. For purposes

of this analysis, capital funding provided by a third-party developer was assumed as a result of this effort.

- **Cargo Redevelopment.** Similarly, DOT-A could seek interest from third parties to fund capital costs associated with the Cargo Redevelopment. For purposes of analysis, it was assumed that DOT-A would continue to receive land lease payments, included in nonairline rental revenues that are discussed later in this chapter, consistent with current State policies and practices.
- **Heliport touchdown and lift-off area.** DOT-A could seek interest from third party developers to provide private funding to construct a new heliport area.
- **Astronaut Ellison S. Onizuka Space Center.** The relocation of the Ellison S. Onizuka Space Center is an element of the terminal expansion program. As a result, DOT-A has entered into discussions with the Onizuka Board to construct a new space center on a two-acre site located on the south side of the airport access road. The relocation of the facility (as necessitated by the terminal expansion project) could be funded, in part, by PFC-supported bonds. Funding through other means—such as special grant funding provided by Boeing, the Smithsonian, or NASA could be considered for final build-out costs.

REVENUE BONDS

The Airports System’s financial operations are governed by the provisions of the 1969 Certificate, as described at the beginning of this chapter. Under the provisions of the Certificate, Airport Revenue Bonds are secured by and payable from Project Revenues (i.e., Revenues generated from the operations of the Airports System in aggregate, not any of the airports individually) and other pledged Amounts Available for Debt Service. In addition, PFC revenues can be used to offset the payment of Bond debt service for eligible projects.

Any project costs not funded through AIP or TSA grants, PFC revenues, private financing or internally generated funds would be financed with the proceeds from the issuance of Airports System Revenue Bonds (ASRB).

The issuance of additional bonds is limited to DOT-A’s ability to meet the requirements of the Additional Bonds Test and the Rate Covenant of the Certificate, as described earlier. Bond financing capacity is constrained by these requirements and the intention of DOT-A to meet desired airline payment levels. Bond financing capacity and actual airport revenues and expenses may influence project timing.

DEBT SERVICE

As reflected in **Table 6B**, Airport Service Revenue Bonds may be issued by DOT-A in the future to fund capital

costs associated with the short term financial plan. Currently, the statewide CIP dated October 16, 2008 anticipates a total of approximately \$88 million in future bond sales (including PFC-backed bonds) for the terminal expansion projects, ARFF Training Facility, and other KOA Terminal/Airfield projects during the short term. Estimated Debt Service Requirements on the Bonds were based on the following allowances and assumptions:

- 30-year maturities (which is consistent with past practices of the State)
- Assumed bond interest rates of 6%
- Allowances for capitalized interest, assuming 2-year capitalized interest periods
- Funded Debt Service Reserve Account
- Allowances for costs of issuance

The statewide CIP does not anticipate future bond sales for the Terminal Apron West Expansion. The development of this project would be demand-driven as discussed previously. Implementation of the project would require an additional \$145 million in bond sales. It is anticipated the incremental debt service would result in incremental annual debt service payments of over \$10.5 million starting FY 2015 for KOA. This could potentially raise the KOA terminal rental rate to over \$80 per sq. ft., as well as

materially increase the landing fee for the entire Hawaii Airports System.

Consistent with the Certificate, PFC revenues may be used to reduce the amount of Debt Service Requirements funded from Net Revenues. Debt Service Requirements on Outstanding and Future bonds are allocated to Airport cost centers on the basis of the project costs financed with such Bonds.

OPERATING EXPENSES

DOT-A provides most of the maintenance, operating functions, and utilities at KOA, using a combination of DOT-A staff and contract personnel. Operating expenses include salaries and wages, other personal services, utilities, special and major maintenance expenses, materials and supplies, the costs of equipment and motor vehicles purchased with cash, and Airports Division and State administrative charges. Direct operating expenses are those expenses that can be charged to one of the direct cost centers used for rate-setting purposes—i.e., to the KOA Terminal Cost Center, or to the system-wide Airfield Area Cost Center. Indirect operating expenses, including expenses associated with administration, are allocated to cost centers in proportion to the allocation of direct operating expenses.

In FY 2008, KOA incurred approximately \$15.2 million in operating costs and an additional \$144,111 for equipment and motor vehicle capital costs. Of this amount, \$9.8 million was spent

on salaries and benefits, \$2.3 million for utility costs, \$1.6 million on special maintenance costs, and \$1.5 million on other operating costs.

Figure 1 on **Exhibit 6A** presents projected annual Operating Expenses by cost center for FY 2008 through FY 2012, FY 2017, and FY 2030. Based on historical trends, operating expenses for FY 2009 are expected to be approximately 90% of the approved budget for the year. Thereafter, it was forecast that operating expenses will increase by 2.5% per year as a result of inflation, forecast activity levels, planned facility expansions, and other assumptions regarding Airports System operations. It was assumed that the State will continue to assess a surcharge of 5% for central services expenses on all receipts of DOT-A after deducting any amounts pledged, charged, or encumbered for the payment of Bonds in each Fiscal Year.

DOT-A continues to seek cost-saving measures in daily operations. While actual savings have not been considered in the analysis, the following initiatives may reduce cost of operations at KOA, and/or enable increased activity without increased operating expenses:

- **Photovoltaic (PV) System.** Installation of a photovoltaic system is planned over the parking lot and the existing cargo buildings to provide electrical power to support the existing airport and proposed expansions.

- **Natural Energy Laboratory of Hawaii Authority (NELHA) Partnership.** To reduce operating expenses for electrical and water discussions between NELHA and the State are taking place. Some of the partnership opportunities might include the following:

- 1. Deep Sea Water Cooling (SWAC) (Sea Water Air Conditioning)
 2. Research and Development Alternative Fuel Vehicles for use at Hotel / Conference Facilities and Consolidated Car Rental – Fleet Mix and Shuttle Buses
 3. Bio-Fuel Plant and Fueling Station
 4. Hawaii Electric Light Company (HELCO) Approved PV System
 5. Roadway Circulation / Frontage Road
 6. Algae-Based Aviation Fuel

OPERATING REVENUES

Table 6C presents historical audited operating revenues for KOA for FY 2005 through FY 2007 and unaudited operating revenues for FY 2008.

TABLE 6C
Historical Revenues
Airport Master Plan
Kona International Airport at Keahole

	Historical (a)			Unaudited (b)
	FY 2005	FY 2006	FY 2007	FY 2008
AIRLINE RENTALS AND FEES				
Passenger Airline Landing Fees	\$2,592,244	\$2,772,600	\$2,818,594	\$2,782,874
Less: Aviation Fuel Credit	(85,654)	(123,101)	(40,714)	(137,634)
Net Landing Fees	\$2,506,590	\$2,649,559	\$2,777,881	\$2,645,240
Terminal Rents	\$796,586	\$773,819	\$775,716	\$1,618,454
International Arrivals Building (IAB)	346,820	345,732	294,334	325,664
Airport Support Services Charge (ASSC)	41,055	43,658	39,005	47,406
Total Airline Revenue (b) (a)	\$3,691,050	\$3,812,768	\$3,886,936	\$4,636,764
Enplaned Passengers (b)	\$1,481,368	\$1,476,414	\$1,573,799	\$1,564,292
Airline Cost Per Enplaned Passenger (a/b)	\$2.49	\$2.58	\$2.47	\$2.96
NON-AIRLINE REVENUE				
Terminal Area Concessions				
Food and Beverage	\$181,228	\$231,134	\$238,386	\$663,653
News and Vending	44,021	51,420	76,745	76,762
Gift Shop/Apparel & Baggage	410,236	896,985	868,875	738,544
Lei Vendors	34,097	37,869	34,643	30,673
Total Terminal Area Concessions	\$669,581	\$1,217,408	\$1,218,649	\$1,509,632
Other Concessions (Parking, Ground Transportation, etc.)				
Parking	\$806,023	\$901,614	\$999,672	\$1,086,282
Rental Cars	6,081,747	5,990,804	6,358,589	6,115,605
Ground Transportation & Shuttle	151,650	171,492	168,639	183,252
Other Terminal Concessions	(5,618,538)	191,599	186,729	184,073
Total Other Concessions	\$1,420,882	\$7,255,509	\$7,713,630	\$7,569,212
Other				
Other Rentals	\$957,119	\$962,000	\$981,000	\$981,651
Miscellaneous Revenue	254,953	322,706	310,291	405,122
Operating Interest Income	251,198	879,243	819,283	---
Total Other Rentals	\$1,463,269	\$2,163,949	\$2,110,574	\$1,386,773
Total Non-airline Revenue	\$3,553,732	\$10,636,866	\$11,042,853	\$10,465,617
Total Airport Revenues	\$7,244,783	\$14,449,634	\$14,929,789	\$15,102,381

(a) Source: Airport management records, August 2008

(b) Source: Airport unaudited financials, November 2008

AIRLINE REVENUES

Historically, airline revenues as a percentage of total revenues at the Airport have been about 31%. Industry benchmarking suggests airline revenues at similar sized airports closer to 42%. As shown on Figure 2 of **Exhibit 6A**, airline revenues are anticipated to increase as a result of the new rate setting methodologies defined in the First Amended Lease Agreement for Signatory Airlines which went into effect January 1, 2008.

In general, Airline terminal rental rates and landing fees are calculated as a function of forecast O&M expenses, debt service, and certain non-airline revenues anticipated for the Terminal and Airfield cost centers. As presented in Figure 3 of **Exhibit 6A**, it is anticipated that Landing Fees (which, as previously noted, are calculated on a Statewide basis for all five primary airports) will grow in proportion with costs allocated to the Airfield Cost Center (a common cost center across all 5 primary airports' airfields), while terminal rents would be

FIGURE 1
OPERATING EXPENSES
 Airport Master Plan
 Kona International Airport at Keahole

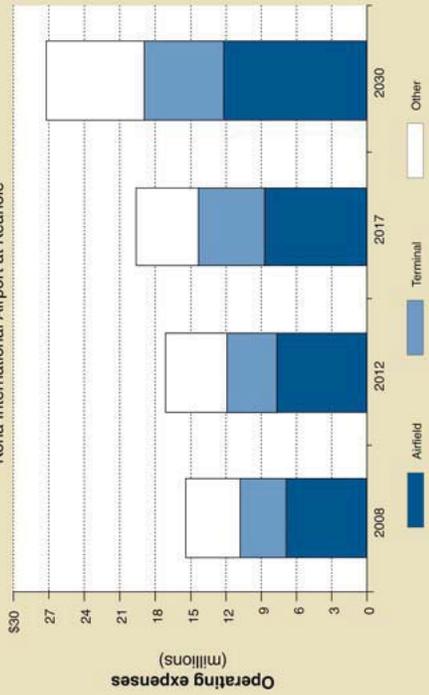


FIGURE 2
AIRLINE AND NONAIRLINE REVENUES
 Airport Master Plan
 Kona International Airport at Keahole

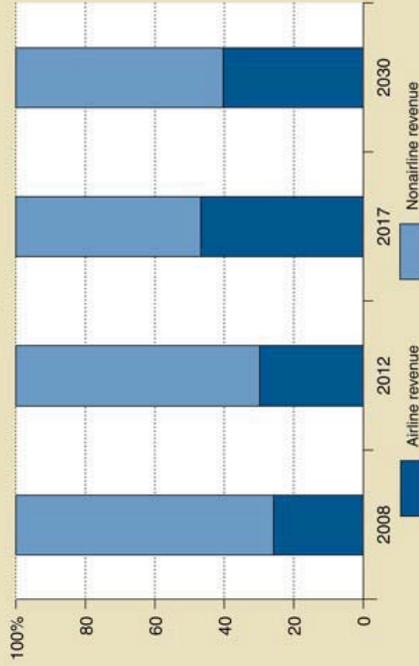


FIGURE 3
COMPONENTS OF SIGNATORY PASSENGER AIRLINE REVENUE
 Airport Master Plan
 Kona International Airport at Keahole

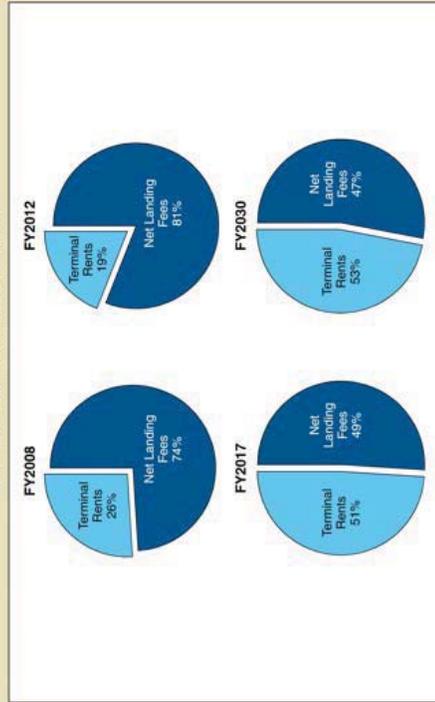
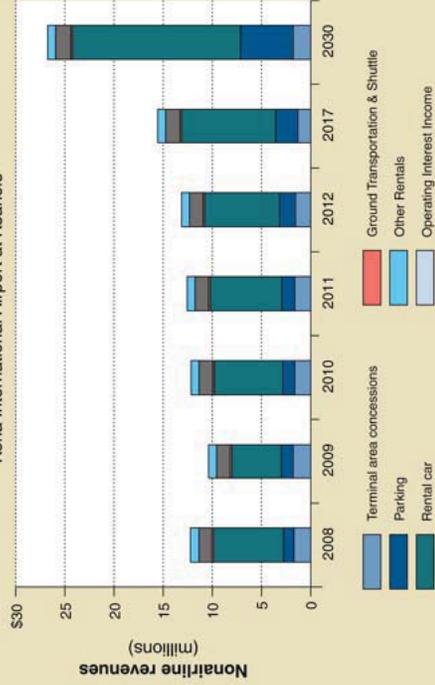


FIGURE 4
NONAIRLINE REVENUES
 Airport Master Plan
 Kona International Airport at Keahole



limited to methodologies defined in the First Amended Lease Agreement.

The methodologies for calculating Signatory Airline rates are defined below:

Landing Fee Revenues

Under the terms of the Amended Lease Extension, the Signatory Airlines pay landing fees per 1,000 pounds of certificated gross aircraft landed weight to allow DOT-A to recover certain operating, maintenance, and capital costs of runways, taxiways, and other airfield facilities, after crediting nonsignatory landing fee payments, PFC revenues used to pay debt service, and any federal operating grants. Nonsignatory airlines pay landing fees as described in the Hawaii Administrative Rules (see below).

The overseas landing fees for the Signatory Airlines are calculated for the statewide Airports System according to a residual rate-setting methodology. Operators of interisland flights pay an agreed-upon discounted rate that was initially set at 36% of the overseas landing fee in FY 2008, increasing 1% each subsequent Fiscal Year until it reaches 100% of the overseas rate when the discount would be eliminated.

Terminal Rents

Under the terms of the Amended Lease Extension, the Signatory Airlines pay the net requirement for the Airport's Terminal Cost Center, after being credited for terminal concession

revenues, PFC revenues used to pay debt service, and any federal operating grants. Terminal rental rates are adjusted by multiplying the rates by 60% in FY 2008, which increases 5% per year until FY 2016, when the adjustment would be eliminated.

In addition, separate rental rates apply for joint use areas, including (1) holdrooms, (2) baggage systems and (3) common use ticketing positions. Charges for the international arrivals area are also assessed for use of customs and immigration facilities.

Airports System Support Charge Revenue

The ASSC is set to recover any residual costs of the Airports System and to meet requirements of the Rate Covenant. The overseas ASSC is set by dividing the Net ASSC Requirement (difference between statewide expenses and revenues less any applicable credits) by total Airports System landed weight. The interisland ASSC rate is the product of the overseas landing fee rate and the interisland rate for the Fiscal Year (initially set at 36% of the overseas rate in FY 2008, increasing 1% each subsequent Fiscal Year until such time as it equals 100% of the overseas rate).

Applicable ASSC credits for any Fiscal Year include (1) PFC revenues to pay debt service, (2) nonairline revenues, (3) interest earned on operating funds, (4) terminal rentals, (5) aeronautical rentals, and (6) landing fee revenues. When Airports System Revenues are sufficient to recover Airports System

Costs, no ASSC is to be assessed on overseas or interisland activity. Otherwise, the overseas ASSC rate is to be computed by dividing the Net ASSC Requirement by total landed weight. Forecast revenues are expected to recover the costs of the Airports System and no ASSC is forecast to be required.

Nonsignatory Airline Rates and Charges Revenues

Nonsignatory airline fixed rates that are established by H.A.R. Chapter 19-16.1, were last adjusted in November, 2000, pursuant to the Administrative Rules Process. DOT-A is in the process of amending the methodology contained in H.A.R. Chapter 19-16.1 such that nonsignatory airline rates and charges would be 125% of Signatory Airline rates and charges.

NONAIRLINE REVENUES

Ongoing efforts to maximize revenues from other sources would reduce the requirement imposed on the airlines, given that terminal concession revenues are netted against terminal costs for purposes of the terminal rental calculation. As presented in Figure 4 of **Exhibit 6A**, revenues from sources related to numbers of passengers, such as terminal concessions, rental car percentage fees, and parking revenues, were forecast to change as a function of forecast activity. Unless noted otherwise, forecast revenues reflect 2.5% annual inflation.

Terminal Area Concessions

Various terminal concessionaires lease terminal space at KOA. Under the terms of the concession agreements, concession fees payable to DOT-A are the greater of a percentage of gross sales or minimum annual guarantee (MAG) that has been specified in each concessions agreement. Unless noted otherwise, forecast revenues are based on a combination of: (1) forecasts of enplaned passengers, (2) recent historical trends in the concession revenues paid to DOT-A, (3) allowances for inflation of 2.5% per year, (4) the terms and conditions of agreements with the State, and (5) assumptions regarding ongoing improvements.

In FY 2008, terminal area concession revenues in excess of \$1.5 million account for 12.4% of total nonairline revenues. A brief description of the revenue sources included in this category is provided below.

- **RETAIL**

The retail concession agreement includes retail concessions, such as (1) gifts, apparel, and luggage; (2) packaged foods; (3) sundries and toys; and (4) jewelry and shells. In the Intermediate planning period, construction of a second level concourse will provide opportunity for additional space for retail concessions. It was assumed that DOT-A will see an increase in the average sale per enplaned passenger of up to 15% upon 100% occupancy of the new space. For forecasting pur-

poses, the new space is assumed to be occupied in FY 2018.

- **FOOD AND BEVERAGE**

Historically, food and beverage concessions have accounted for approximately 3.1% of nonairline revenues. In FY 2008, food and beverage revenues increased significantly as a result of the re-bid concessions agreement. Upon completion of construction of the second level concourse, and full occupancy of the new food and beverage space, an increase of up to 25% on the average sale per enplaned passenger can be expected. For purposes of forecasting it is assumed this will happen in FY 2018.

- **NEWS AND VENDING**

Hawaii Revised Statutes (HRS) §102-14 requires the news and vending machine services be contracted in an effort to provide economic opportunities to persons with blind or visually impaired disabilities. Revenues to DOT-A are based on a “tiered” rate structure ranging from 2% to 10%. In FY 2008, gross sales in excess of \$1.7 million resulted in revenues to the State of approximately \$77,000.

- **LEI STANDS**

Two separate lei stands are located in each of the terminal areas. DOT-A collects approximately \$35,000 a year from the floral operations.

- **OTHER CONCESSIONS**

Concession revenues received by DOT-A in connection with parking, rental car and ground transportation are expected to total \$7.1 million, or 66% of total Revenues in FY 2008. Details of each revenue source and revenue forecast assumptions are as follows:

- **PARKING**

AMPCO System Parking operates the public and employee automobile parking facilities under a month-to-month management contract at KOA. Under this agreement, DOT-A retains all rights to implement, among other things, parking rate increases. Projected public parking revenues are based on (1) historical annual trends in parking revenues per enplaned passenger, (2) moderate increases in the parking rates beginning in FY 2009 and anticipated every 3 years following, and (3) forecast numbers of passengers. It is expected that with the completion of each parking expansion project a 5% increase in parking revenues can be anticipated. For forecasting purposes, the increases are anticipated in FY 2009 and FY 2020.

- **RENTAL CAR REVENUES**

DOT-A collects rental car concession revenues from on-Airport rental car operations. The on-Airport rental car companies operate under the terms of competitively bid Concession Agreements. In August, 2008, DOT-A advertised for new bids increasing the

percentage fee for on-airport operations from 7.5% to 10%. Currently, eight rental car companies are on-Airport property.

Revenues identified in this category are forecast to increase in proportion to (1) forecast increases in overseas originating passengers, (2) 2.5% inflation, and (3) percentage fees of 10%. The annual percentage fee is subject to a set minimum annual guarantee specified in the agreement.

On September 1, 2008, DOT-A began charging a customer facility charge (CFC) at KOA. CFC moneys collected through the rental car companies are to be deposited into a restricted fund that can only be used to fund construction of new consolidated rental car facilities and other improvements needed for on-airport rental car operators. No Airports System Revenues are expected from this revenue source, and no Airports System funds are anticipated to be used for rental car capital projects.

- **GROUND TRANSPORTATION REVENUES**

In FY 2008, ground transportation revenues at the Airport represented 1.4% of nonairline revenues and 1.0% of total Airport Revenues.

The components of ground transportation revenues are discussed below.

- **Motor Coach (Airport Shuttle) Services**

Under the terms of these contracts, the Airports Division receives 5% of

gross receipts. Forecast revenues are anticipated to grow at 2.5% annually.

- **Taxicab Management**

Taxi service is provided on-demand. Forecast revenues are expected to grow by 2.5% annually for inflation.

Other terminal concessions

In addition to the primary concession agreements described above, off-Airport rental car companies pay fees according to the Hawaii Administrative Rule. 19-20.1-56 under Subchapter 9.

Other Rentals

Other rental revenues include revenues from certain facility and ground leases, as well as, utility costs that are recovered from the respective tenants. The details of this revenue source are described below:

- **AERONAUTICAL RENTALS**

Revenues from aeronautical rentals are associated with ground rentals of paved and unpaved property, and include ramp space and tie-downs that are located adjacent to the cargo and general aviation facilities. Aeronautical rentals also include facility rents and utility reimbursements associated with the cargo facilities, the commuter terminal and the general aviation T-hangars.

- **NONAERONAUTICAL RENTALS**

Revenues from nonaeronautical rentals include revenues associated with commercial tenants such as rental car baseyard lots, the fixed base operator (FBO) fueling facilities and other commercial leases. The terms of these leases range from 4 to 15 years for concessionaires and up to 65 years for other Airport users. Under the terms of the agreements, rental increases are adjusted in proportion with the Consumer Price Index (CPI).

The CIP includes a substantial investment in tenant support facilities at the Airport. For planning purposes, no incremental revenues were considered for these improvements that include the cargo, general aviation and heliport projects.

Other Airport Revenues

Other revenues include (1) the sale of certain utilities and other services, (2) miscellaneous income recognized through daily operations, and (3) interest income.

SUMMARY

The financial plan for the Kona International Airport Master Plan anticipates that project costs would be funded with a combination of federal grants-in-aid, Transportation Security Administrative funds, PFC revenues, internally generated cash flow, and future Bonds to be repaid in part from Revenues of the Airports System and in part from PFC revenues. In addition, a significant share of the capi-

tal costs is anticipated to be funded through tenant and third party financing. Beyond the short-term period through FY 2012, it is assumed that DOT-A will continue to develop the Airport as required to meet the needs of increased passenger demand, consistent with future funding sources available to the State at the time of project implementation. The financial feasibility of future projects will be determined by the provisions of existing or future tenant agreements (including Airlines), funding levels and participation rates of federal grant-in-aid programs, availability of PFC revenues (pay-as-you-go and leveraged), revenue bond capacity, and the ability to generate discretionary cash flow from Airport operations based on the priority of the projects in relation to the other 14 airports in the Statewide CIP.

The financial projections were prepared on the basis of available information and assumptions as set forth in this section. It is believed that such information and assumptions provide a reasonable basis for the projections to the level of detail appropriate for an airport master plan. Based on these assumptions, the capital improvement program could be financed in the future by the State and result in key financial indicators that are consistent with the historical results of the Statewide Airports System and industry comparables. However, some of the assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results may vary from those projected and such variations could be material.