

Comments on

Panama City/Bay County International Airport

Benefit-Cost Analysis

December 2006

By:

Donald R. Hodges

January 8, 2007

## Introduction

The relocation of Panama City/Bay County international Airport has been a contentious issue, largely because the airport district and its consultant/lobbyist team have studiously avoided financial justification. In fact, they have made preposterous claims and raised expectations that cannot possibly be met by this modest origin-destination airport with declining passenger traffic. There are some benefits to building a new airport, *but they are not financial benefits that exceed the cost, and they are not aviation benefits that usually accrue in benefit-cost analysis.*

Even if this Benefit-Cost Analysis (BCA) is taken at face value, the “aviation” benefits are only \$12.7 Million in Net Present Value, whereas the “real estate speculation” benefits are \$110 Million, confirming that *this is not an airport deal but a land deal.* This is further reinforced by email traffic obtained with the December 2006 BCA in a public records request, which shows the landowner marking up the BCA draft and suggesting items to be included and excluded.

The “sunk costs” not allowed in this analysis are almost \$40 Million, and would obviate the net benefits if considered. If the project goes forward as planned, Panama City will be the only sizeable city in Florida without a community airport, having plowed it under to realize less funds than will be needed to grade the new site.

The BCA should *not* be taken at face value because the consultants have again shaded the facts to favor relocation. I will point out several discrepancies that should be corrected. *This is an airport for communities that don't exist yet, and it is very unlikely to pay back its total cost within a 30 year period. FAA should again reject this BCA and require the Sponsor to justify this project for what it is: a real estate amenity at great public expense, with enormous environmental impacts and permanent aviation deficits for the incumbent users who must use it because the project provides no alternative.*

## Comments on Baseline BCA

**Forecasting** - The “bottom-up” forecasting in this BCA is the most credible passenger enplanement forecasting on the project to date, but fails to pick up the present flat-to-down trend in place since 2001. *The most notable element of the forecast is that 33 years in the future, the forecast predicts only 39,000 more enplanements at the Project Alternative than at the Base Case, or approximately THREE ADDITIONAL REGIONAL JETS. Considering the timeframe and necessarily coarse assumptions, this is no difference at all; seasonal schedule adjustments have exceeded this difference.*

The present traffic base is so thin that small adjustments in service or pricing by the two bankrupt airlines in the market can drive big distortions in traffic. Nobody can foresee *exactly* how the four northwest Florida markets [Pensacola (PNS), Tallahassee (TLH), Ft. Walton/Okaloosa (VPS), and Panama City (PFN)] will develop, but there is no reason to expect a re-ordering of the hierarchy. This forecast wisely avoids such a prediction, but later the team cannot resist speculating that VPS will be adversely affected by military activity. *The VPS Sponsor and community will vigorously promote and defend their inherent strengths of a larger market and lower costs, and no benefits of overflow from VPS should be considered.*

The shifting of traffic among catchment areas will be overshadowed by fare and service differentials, especially if low-cost service is re-introduced at VPS or TLH. Previous leakage rates to these adjacent markets with low-fare service have far exceeded the forecasted catchment

shifts in patronage. *The benefits claimed for catchment area shifts and new hub service should be sensitivity-tested for low-fare competition that is likely to return to TLH/VPS before PFN.*

***Inflated Cost of the Base Case*** – The team could do little to mitigate the cost of the Project Alternative, so they scrambled to add costs to the Base Case. The most obvious addition is the \$58.3 Million tunnel assumed to carry SR 390. *Two viable EMAS alternatives considered in the EIS met the aviation requirements of the project without tunneling.* Attached are Figures G-8A and G-8B from Appendix G of the Final EIS.

Figure G-8A is for “EMAS Scenario 2”, which provides EMAS on both ends of Runway 14-32, extends the runway 500 feet, and displaces SR 390 by 750 feet without tunneling – *for the Base Case, SR390 would be displaced only 250 feet and would not require tunneling.*

Figure G-8B is for “EMAS Scenario 3”, again providing EMAS on both ends, a 500 foot extension, and displacing SR 390 by only 275 feet without tunneling – *for the Base Case, 14-32 could actually be extended 225 feet without displacing SR 390.*

Although the Base Case has been defined arbitrarily, if the present site were actually being developed to its maximum, these profiles could be shortened further (or provide a runway extension) by offsetting the localizer and adjusting the ILS approach, recognizing both the declining value of ILS and the prevailing weather that seldom requires operations at the present minimums. These two alternatives should be evaluated and the low-cost alternative used to re-price the Base Case (or the alternate scenario could become a sensitivity test of the selected scenario). “Scenario 2” could probably be built without an EIS, reducing its cost and offsetting part of the cost to realign SR 390. “Scenario 3” might require an EIS (although building piers does not automatically trigger an EIS) but would avoid all costs of realigning SR 390, and reduce the cost of clearing the RPZ. *At minimum, either scenario reduces the Base Case by most or all of the \$58.3 Million cost of tunneling, eliminates the risk of tunneling that realistically will never occur, and drives the Benefit/Cost Ratio below 1.0.*

***Improper Assumptions about General Aviation (GA) Benefits*** - The claims for GA benefits are based on a false premise and false assumptions. The analysis "freezes" facilities improvements and GA growth for 33 years because of an arbitrary assumption of a condition that admittedly will be resolved within months, then calculates "benefits" that occur over the entire period. It cannot be both ways. It is as reasonable to assume that GA activity will drop abruptly at the Project Alternative, then recover over years, because the remote location and "marked to market" costs will drive many local GA owners out of GA or to inferior venues and certainly NOT DESTIN. *The very least assumption that should be made is that comparative future GA activity is unknown or hard-to-quantify.* It defies belief that any GA interest would agree PFN pilots would commute to DESTIN for touch-and-goes, or that Destin can absorb overflow from PFN. Some GA interests have been screaming at the Sponsor for years that the Project will damage local GA interests. Statements attributed to FBO management and airport tenants should be tempered with the understanding that these interests are not free to express themselves while faced with renegotiating leases and eminent domain seizures. *All GA benefits should be removed from the baseline BCA and discussed only as speculation.*

***Improper Claiming of Mitigation Land as a Benefit*** – The concept of mitigation is to sacrifice the use (and value) of a mitigation parcel to offset the damage incurred on the parcel being mitigated. If a residual value is claimed as a benefit, then the lost environmental value of the developed parcel must be claimed as a cost of the Project Alternative. Said another way, “mitigation” by definition is a “wash”, and the mitigation land is part and parcel of the Project site, which has not been allocated a cost. Furthermore, the owner has not sold the mitigation land, so its value cannot be the same as a parcel sold outright. *The Mitigation Land Value of \$28.5 Million should be excluded from the BCA.*

***Claiming Improper Future Value of Industrial Land*** – Huntsville is an entirely different economy and real estate market, thus land values derived from Huntsville are not comparables. It is also notable that Huntsville, despite a strong high-tech economy, still has industrial land available after almost 40 years, yet the team assumes 100% absorption of PFN land in 20 years. A common practice in industrial recruitment is leasehold and tax abatement, further reducing the prospects of absorption at full rates. *The industrial land absorption and price assumptions for both the revenue stream and salvage value should be reduced and sensitivity tested.*

### **Comments on Sensitivity Tests**

***Test 1 - 50 percent increase in Tunnel Costs*** - As explained in the comments above, a proper Base Case defined as *"the optimal course of action compatible with the specified project objectives that would be pursued in the absence of a major initiative"* **would not require tunneling for SR 390.** *The EMAS scenarios that met the aviation requirements posed in the EIS must be considered, especially since the analysis all but declares that a tunnel would not be pursued.*

***Test 2 - No Service to DFW under the Base Case*** - This is a strange assumption since service to DFW has existed in the past, and further assumes that American will never upgrade the worst regional jet in its fleet. The real risk to American service (for either PFN alternative) is that American already serves VPS and not TLH, and is likely to enter TLH next. Thus American will be "competing with itself" when it initially offers service from PFN because it will shift the leakage traffic it captured from both east and west at full revenue and marginal cost.

***Test 3 - Base Case Improvements not Approved*** - This is not a sensitivity test but an abandonment of the Base Case, which should require the entire BCA to be re-cast with a viable Base Case as suggested in earlier comments.

***Test 4 - 15 Percent Increase in Project Construction Cost*** - consistent with the trend in cost estimates.

***Test 5 - Low Fare Carrier Service*** - This is not a sensitivity test but an effort to re-introduce a speculative methodology already rejected by FAA in the January 2005 BCA draft. The team and the landowner discussed obtaining letters of interest from various carriers but apparently failed to get them.

**Test 6 - Fare Reduction as a Result of Longer Runway** - This is another strained methodology yielding a predicted fare differential that would be lost in the variability of fares due to competitive reasons, seasonal demand, etc. The methodology falls short of proving the correlation implied in the title.

**Test 7 - Charter Benefits** - There will be some charter benefits, but the forecast used here is ridiculously optimistic, predicting 5 per week wide-body trans-Atlantic charters. This forecast was apparently contrived for the EIS to suggest a critical airplane that would require a 8400 foot runway. The team scoured the TAF and origin-destination data for **Test 5** and **Test 6** data, but apparently can cite no data to predict heavy international wide-body charter activity for a market barely achieving mainline domestic service in the study interval. *FAA should require a more realistic assumption in the absence of data or carrier commitments.*

**Test 8 - All Master Plan Costs Included in the Base Case** - This depends on the meaning of "All" - does the team seriously suggest a need for seaplane facilities, International Arrivals facilities, the massive GA west-east flip-flop? The Master Plan is the usual Sponsor's All-Inclusive Wish List and Straw Man, and should be carefully pruned before considering it. If this cost is allowed, then the Project Alternative should include runway extensions, parallel runway, relocated terminal complex, etc., as these will no doubt appear soon on the Project Alternative Master Plan.

**Test 9 - Only FAA Share of Capital costs is Included** - This is not a sensitivity test, it is an attempt to influence prudent federal funding to follow speculative local and state examples. *Federal aviation funds are desperately needed at many airports - FAA can make its benefit/cost ratio "infinity" by simply declining to join this speculation.*

**Test 10 - EMAS Base Case** - See comments on "**Inflated Cost of the Base Case**" and "**Test 1**". EMAS as defined by FAA in the EIS does not require tunneling, and should be the Base Case under the definition cited because it "would be pursued in the absence of a major initiative" if PFN is to comply with the Lautenberg Amendment.

### **Other Possibilities**

An even better plan would be to abandon the wetland site and build a 2500 acre one-runway regional carrier airport closer to I-10, to be occupied in 2015, leaving PFN to be re-configured as a premier GA airport like FMY. This is the low-cost alternative (in spite of \$40 Million already sunk in the "Project Alternative Free Land" with \$6 million more to follow for mitigation), and is the only solution that truly grows long-term airfield capacity in the region.

Instead, the prospect is that we will soon say goodbye to most of the Project Team, build only a one-runway carrier-centric regional airport, using "creative financing" and Letters of Credit that will not go bust until the construction loans and commercial paper come due at occupancy - whereupon FAA and the State of Florida will get one last "opportunity" to "invest" in the "unleashing" of new-PFN.