

2010

TRANSITION REPORT

ALABAMA



DEPARTMENT OF TRANSPORTATION

PREPARED BY THE STAFF

OF

THE AERONAUTICS BUREAU

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BUREAU OF AERONAUTICS TRANSITION REPORT 2010

BUREAU OF AERONAUTICS

The Aeronautics Bureau was established by state law within the Alabama Department of Transportation in May 2000. Prior to this date, the Aeronautics Bureau operated as the Alabama Department of Aeronautics under the authority of a seven-member commission appointed by the Governor and a director chosen by the commission and approved by the governor.

The Alabama Aeronautics Bureau focuses on three broad programmatic areas: (1) airport system planning and development; (2) Promoting airport safety and security; and (3) inspecting and licensing airports to assure that airport facilities meet certain minimum standards of safety and design. The bureau serves the aviation community and the general public by assuring that aviation fuel taxes and other supplemental revenues are spent on projects that will preserve and improve Alabama's air transportation system. Ensuring the long-term viability and safety of Alabama's airport system is considered essential for the state's economic growth.



Organization

The Aeronautics Bureau carries out its policies and programs with a staff of nine (9) employees. In addition to the Chief of Aeronautics, the bureau is comprised of an Aeronautics Manager who is primarily responsible for integrating the airport planning function with that of the airport inspection function. Other bureau personnel include an office manager, two airport planners, three airport inspectors, and one airport engineer. The Aeronautics Bureau operates a Beechcraft Baron aircraft in support of its airport inspection responsibilities and to meet with local officials throughout the state to assist with the planning, development and construction of their airport facilities.

Since its move into the Alabama Department of Transportation, the Aeronautics Bureau has undergone a major transformation in the role it serves for the development of Alabama's system of six commercial service and 78 general aviation airports that are owned by various cities, counties and airport authorities. The law that established the Aeronautics Bureau within the Transportation Department also authorized the bureau to act as the "channeling" agent for the application, receipt and disbursement of federal airport improvement program funds. This "channeling" authority has enabled the Aeronautics Bureau to better coordinate and synchronize its airport improvement grant program with that of the Federal Aviation Administration. Since May of 2000, the Aeronautics Bureau has "channeled" approximately 220 million dollars in federal airport improvement funds to the state's general aviation airports.

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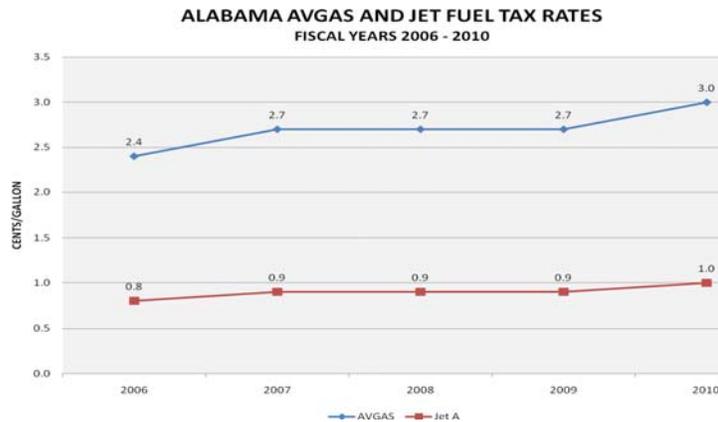
Revenues and Expenditures

The Bureau of Aeronautics has two (2) separate and dedicated funds from which it operates. These revenue sources include: (1) the Airport Development Fund (ADF), and (2) the Surplus Military Fields Fund (SMFF).

Airport Development Fund. Revenues deposited into this fund are generated by the State-levied tax on the sale of aviation fuels. The excise tax imposed on aviation fuel and jet fuel are the only revenue sources provided by the State of Alabama for the Bureau of Aeronautics' airport improvement program and its operating budget.

During the 2010 fiscal year, the tax for aviation fuel was 3.0 cents per gallon and the jet fuel rate was 1.0 cents per gallon. The State collected aviation/jet fuel tax receipts in the amount of \$838,404 for the year.

Under Alabama law, aviation and jet fuel tax revenues have been capped at \$600,000 annually since 1979. If collections for a given fiscal year fall below \$550,000, the tax rates are adjusted upward the next fiscal year. If collections for a given fiscal year exceed \$650,000, the tax rates for the next fiscal year are adjusted downward. The Alabama Department of Revenue is responsible for making the annual tax rate adjustment. The tax mechanism that sets aviation and jet fuel tax rates has the unintended consequence of causing tax rates to rise in a declining economy and tax rates to decline in a growing economy. The chart above depicts the annual adjustment in tax rates between 2006 and 2010.



To supplement the aviation and jet fuel tax revenue, the Transportation Department has shifted other funds into the ADF for the purpose of leveraging federal grants for airport improvements. These supplemental funds are derived from revenue that are not constitutionally or statutorily dedicated for highway and bridge construction. In 2010, the Aeronautics Bureau received approximately \$1.4 million in supplemental funds that were applied to projects for which requests were received to match federally assisted projects.

Surplus Military Fields Fund. All revenue deposited into this fund is generated from the sale or lease of surplus military fields that are either previously owned by the Alabama Department of Aeronautics or currently owned by the Department of Transportation. Following World War II, the Federal government transferred ownership of a small number of primary and auxiliary airfields to the Alabama Aeronautics Department.

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Currently, the Department of Transportation owns and operates St. Elmo Airport located in south Mobile County. Also, the Department continues to own two former auxiliary airfields in Lawrence County that no longer serve as airports. These two sites are leased for agricultural purposes.

At the end of fiscal year 2010, the Surplus Military Fields Fund (SMFF) had a principal balance of approximately 9.8 million dollars invested in various interest-yielding instruments. Interest earned in FY-2010 amounted to \$147,629. Interest earnings on the SMFF have declined drastically in the past 3-5 years. It has been the bureau's policy to only spend the interest generated by the SMFF investment portfolio and not the principal investment. Interest earnings can be used for capital improvement project grants made to airports and projects that qualify for this money. To qualify for a grant from the Surplus Military Fields Fund, the airport and its proposed project must meet certain criteria set by the Federal Aviation Administration (FAA). Because the principal and interest of this fund is derived from former Federal property, the spending of these funds must comply with strict requirements prescribed by the FAA. Additionally, SMFF interest may be used for maintenance and operations expenditures for the St. Elmo Airport.

Airport Improvement Grant Program

One of the two main functions of the Bureau of Aeronautics is to provide State-matching funds to the State's publicly owned, public use airports for planning and capital improvements to their airfield facilities. The Bureau's staff works closely with the cities, counties, and local airport authorities that operate the State's 78 general aviation airports and six (6) commercial service airports to plan and fund capital improvements for their facilities.



During fiscal year 2010, the Alabama Department of Transportation approved grants to 55 different airports from the Airport Development Fund. Grants in the amount of approximately \$840,000 were made on airport capital improvement projects primarily for the purpose of matching federal funds for airport improvement projects issued through the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP). Under the current federal AIP, the FAA will fund 95% of an eligible airport improvement project and the local airport owner is responsible for the remaining five percent (5%) match. In turn, the local airport owner can request a state matching grant for one-half of its matching obligation, or two and one-half percent (2.5%) of the total project cost.

During the 2010 fiscal year, the FAA issued a total of \$67.3 million in grants to airports within the state of Alabama. Of this total, \$42.0 million was split between the six

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commercial service airports in Birmingham, Huntsville, Mobile, Montgomery, Dothan and Muscle Shoals. The remainder, or \$25.3 million, was issued in grants to 55 of Alabama's general aviation airports. The combined federal and state funds contributed to a variety of airport improvements, including land acquisition for safety compliance, runway extensions, runway resurfacing projects, runway or taxiway lighting projects and the construction of hangars or airport terminal

buildings.

Airport Project Sponsorship Program

At the encouragement of the Federal Aviation Administration's Airports District Office (FAA/ADO), the Aeronautics Bureau has initiated an airport project sponsorship program that is intended to further enhance the FAA's AIP program and better coordinate it with that of the State of Alabama. Under the sponsorship program, the Aeronautics Bureau serves as the sponsor of airport improvement projects at multiple locations. The projects that can be sponsored include all phases of the planning, design and construction of various airport facilities. The purpose of the sponsorship program is to achieve better efficiencies in the application and administration of airport improvement projects supported with state and federal funds. To comply with federal requirements, participation in the state sponsorship program is voluntary on the part of individual airports. Also, the airport's request to participate in the program must be made in writing and certain forms must be completed and agreements signed for the state to "sponsor" a project on behalf of an airport.



The sponsorship program differs from the airport improvement grant program in several fundamental ways. First, the state does not issue a grant directly to the airport, although the Transportation Department does enter into an agreement with the airport owner to provide the project with the state's financial assistance. And second, the consultants and contractors that perform work on state "sponsored" airport projects work directly for the Transportation Department, and not the airport owner as is typically done when the airport owner itself is the project "sponsor."

The sponsorship program was implemented in 2007 on an incremental basis to "test" the feasibility of sponsoring multiple projects at different locations. Based on the experience thus far, it is anticipated that the Aeronautics Bureau's state sponsorship program will continue to expand.

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Airport Inspection and Licensing Program

Inspecting and licensing the State's public and private use airports is the second major function of the Bureau of Aeronautics. All landing areas (airports, heliports, etc.) in the State of Alabama are required by law to be licensed by the Alabama Department of Transportation with the exception of personal use facilities. A personal airfield does not require an airport license and does not have to meet any minimum standard for safety. However, no pilot can operate an aircraft into or out of a personal use facility except the owner of the facility or a member of the owner's family. Licensed landing areas are divided into two broad categories, public use and private use.

It is the statutory responsibility of the Bureau of Aeronautics to conduct annual inspections of all licensed airports for the purpose of assuring that they are maintained in a safe condition and meet the minimum safety standards of the Department of Transportation. Any item affecting aviation safety or not meeting the minimum standards of the Department found during inspection is brought to the attention of the owner/manager. If items affecting safety or violating the minimum requirements are not corrected in a timely fashion, the airport license can be withheld or withdrawn until the items are corrected.



Presently, Alabama has 87 licensed public use airports and 47 licensed private use airports. Of the 87 public use airports, 84 are publicly owned and 3 are privately owned and open to the public without restriction. There are 80 licensed hospital and emergency heliports and 15 non-emergency heliports. Additionally, 14 airports are operated by the U.S. government as military airfields.

Site inspections are made of locations for proposed new airports and heliports. Approval by the Department of Transportation is required by law prior to the acquisition of land or construction of publicly owned facilities or privately owned landing areas that will be open to the public. This procedure is to assure that the property and its use will conform to minimum standards of safety and will serve the best interests of the public. Site inspections are also made at non-personal use, privately owned facilities as the first step of the licensing program.

Since moving into the Transportation Department in 2000, the Aeronautics Bureau has made substantial progress in its ability to license a large majority of the state's 78 general aviation airports. In 2000, approximately 64% of the general aviation airports did not

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meet the minimum safety standards for licensing. Due in large part to increased federal funding and the forging of a good working relationship with the Federal Aviation Administration, the Aeronautics Bureau began to focus on projects at unlicensed airports that would correct the safety deficiencies causing many airports that were in noncompliance with state and federal airport safety design standards. By 2010, the number of public use airports that remain unlicensed has dropped substantially. Presently, only about 15% of Alabama's general aviation airports do not meet licensing requirements. The number of unlicensed public use airports is due in large part to minor maintenance issues that can be corrected without substantial cost.

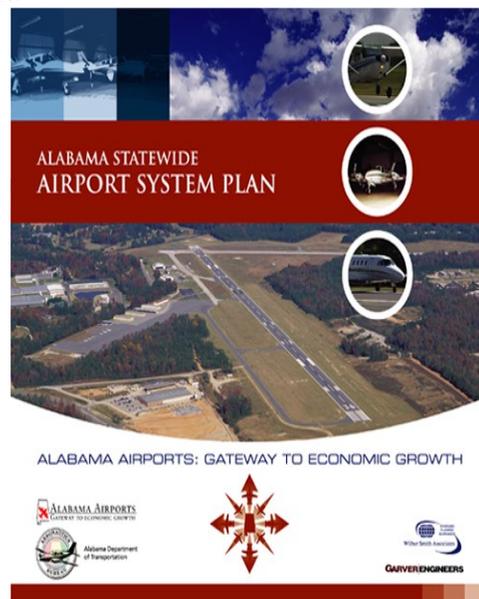
Obstructions to Air Navigation

The staff of the Bureau of Aeronautics also coordinates with the FAA "Notices of Proposed Construction" for tall structures. Structures such as cell phone towers or high-rise buildings are evaluated to determine if their construction will result in a hazard to air navigation. The purpose of this review process is to identify structures that will pose a hazard to air navigation and to protect the airspace in the vicinity of airports.

Alabama Statewide Airport System Plan

In 2000, the Bureau of Aeronautics initiated a comprehensive update of the State's airport system plan. The plan, which focused on the state's publicly owned airports, was funded by a 90 percent matching grant from the Federal Aviation Administration. The overall goal of the plan was to identify a State airport system that enhances the opportunities for local, regional, and statewide economic development.

The plan was completed in two major phases. The first phase identified the existing and potential functional role of each airport within the State. An economic impact study of each airport and the State airport system was included in the first phase of the plan. The economic impact study determined that the State's 84 publicly owned airports produces an economic output of \$4.7 billion and supports 73,139 jobs with a total payroll of \$1.8 billion annually. In addition, the study revealed that for every dollar invested in the Alabama airport system a total of \$163 is returned to the State's economy. The findings of the economic impact study has been published and communicated in several ways. First, each city, county or local airport authority that operates a public airport was provided with a report summarizing the economic benefits in terms of jobs and dollars that the local airport generates within its community. Second, the economic benefits of Alabama's airports were told by a multi-media production that was distributed to local elected and economic development officials throughout the State.



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This production was made available in videotape, compact disk, or digital video disk (DVD) formats. The purpose of this production was to promote airports and to inform the public about the economic impact of airports in their communities and throughout the State.

The second and final phase of the airport system plan was completed in 2005. This phase involved the development of detailed capital improvement plans that are needed to preserve and further improve the State's airport infrastructure. The plans were prepared in close coordination with those airports that were identified in Phase 1 as being critical for the State's economic growth.

In 2010, the Aeronautics Bureau completed an update of the state's airport system plan funded by a grant from the FAA. This update focused on determining the feasibility of developing a new regional airport for west central Alabama. The specific study area included Choctaw, Clark and Marengo Counties and a small portion of Wilcox County in the vicinity of the Town of Pine Hill. This study analyzed the feasibility of making substantial improvements to one of several existing airports in the study area, as well as evaluating the development of an airport at a new site.

The study concluded that it was not cost effective to improve the existing airports within the study area. Based on this conclusion, additional "green field" sites were evaluated to identify the location for a new regional airport for west central Alabama. The study determined that a new regional airport was both feasible and cost effective. Based on these findings, a new site for a regional airport has been selected at a location along U.S. Highway 43 between the cities of Thomasville and Grove Hill. The new airport site is adjacent to an existing industrial park. The selection of this site has been approved by the FAA and following the development of additional plans, it is anticipated that land acquisition for the new west Alabama airport will begin in fiscal year 2012. Completion of the new airport should take about 3-5 years after all the land is acquired.

Airport Security

During fiscal year 2005, the Aeronautics Bureau announced a new policy that is intended to enhance security awareness at our state's general aviation airports. To remain eligible to receive state funding assistance for airport improvements offered by the state after January 1, 2006, the operator of each publicly owned general aviation airport in the state must prepare and implement a written security plan that is consistent with the Security Guidelines for General Aviation Airports published and released by the U.S. Transportation Security Administration in May 2004. The written plans must be on file in the Aeronautics Bureau for airports to receive a state issued airport improvement grant after January 1, 2006. The purpose of this policy is to better focus awareness on the need to increase security measures at our general aviation airports and to better protect both public and private property from theft and vandalism. The policy was prompted by a series of thefts and aircraft break-ins that culminated in an aircraft being stolen from an Alabama airport and taken for a "joy" ride by a non-pilot teenager.

St. Elmo Airport

The St. Elmo Airport in Mobile County was one of several former federal surplus properties that were deeded to the state Department of Aeronautics by the Federal Aviation Administration. The airport is situated on a 740-acre tract of land along U.S. Highway 90 approximately ten miles east of the Mississippi state line. The current airport operations area is approximately 230 acres of land that consists of a 4,000 foot paved runway, full parallel taxiway, aircraft parking apron and hangars. St. Elmo Airport has 25 based aircraft at the present time. The airport is used primarily by its tenants and transient users for a variety of purposes that include flight training and support for area companies that utilize an aircraft in their business. Additionally, the airport is periodically utilized by the U.S. Coast Guard for flight training operations.

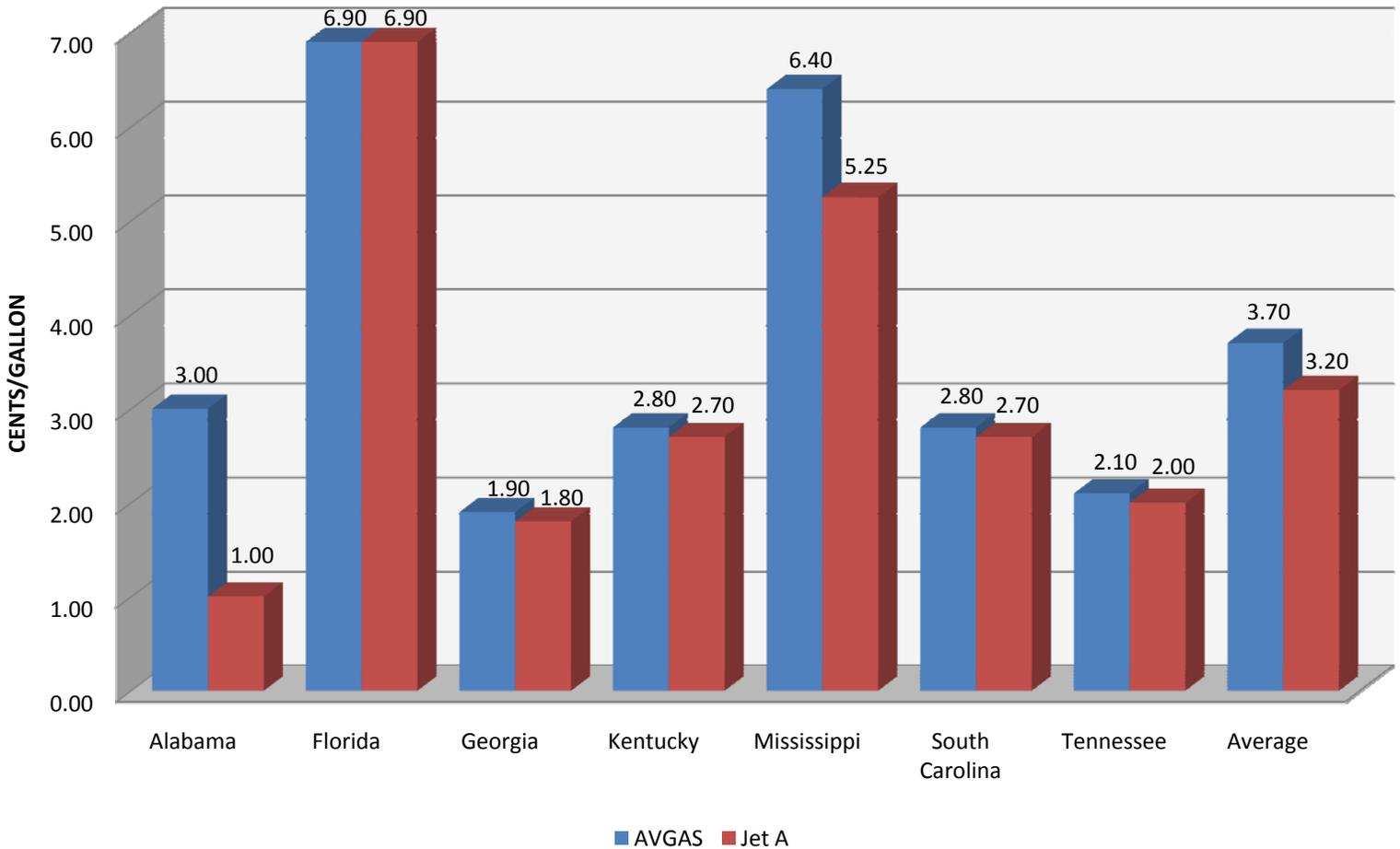


The remainder of the St. Elmo property outside the airport operations area is currently leased for agricultural purposes. However, in anticipation of potential future economic development in this area of Mobile County, an industrial site plan has been prepared for the property that is not within the existing and planned airport operations area. This plan identifies how the property can be subdivided into individual parcels for business offices or industrial sites, road access, and utilities services, including water, power and sewer.

The St. Elmo Airport generates revenue for the Transportation Department's Aeronautics Bureau from its agricultural lease, ground leases for tenant hangars and rental income from hangars constructed by the bureau itself. For 2010, the airport generated approximately \$60,600 in revenue. Expenditures for maintenance and operations totaled about \$23,700, leaving a surplus of about \$36,900. In compliance with FAA requirements, this revenue is used to pay for the operational and maintenance expenses of the airport.

In 2010, the Aeronautics Bureau initiated a project to install an above-ground, self-service aircraft refueling system. The system will be capable of dispensing both aviation gasoline (100LL) and jet fuel (Jet A). Payments for individual fuel purchases by pilots will be made by credit card and the fuel supplier will process the credit card transactions and issue monthly payments to the department by check. The installation of this system became necessary when an existing airport tenant was no longer capable of providing a reliable source of fuel for tenants and transient aircraft. The sale of aircraft fuel will provide another source of income for the St. Elmo Airport, and as an additional source of revenue, conforms to the FAA's requirements that publicly operated airports must be as financially self-sustaining as possible.

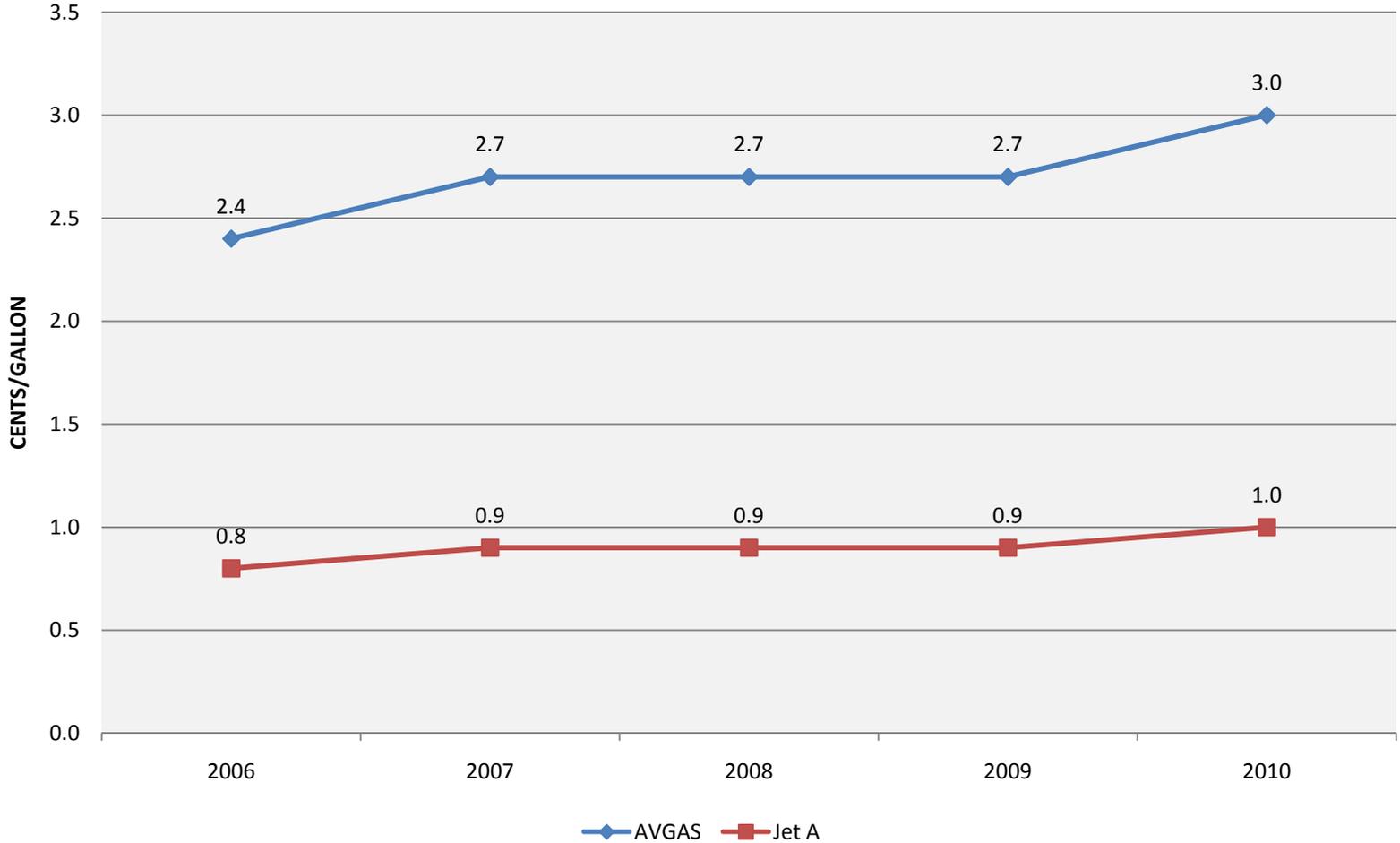
COMPARISON OF ADJUSTED AVIATION FUEL TAX RATES SOUTHEASTERN UNITED STATES FISCAL YEAR 2010



Notes:

1. Georgia sales tax rate = 4%
2. Kentucky sales tax rate = 6%
3. South Carolina sales tax rate = 6%
4. Tennessee sales tax rate = 4.5%
5. Tax rates have been adjusted to account for the different taxation methods among the states compared. Sales tax rates have been converted to excise rates for comparison purposes.

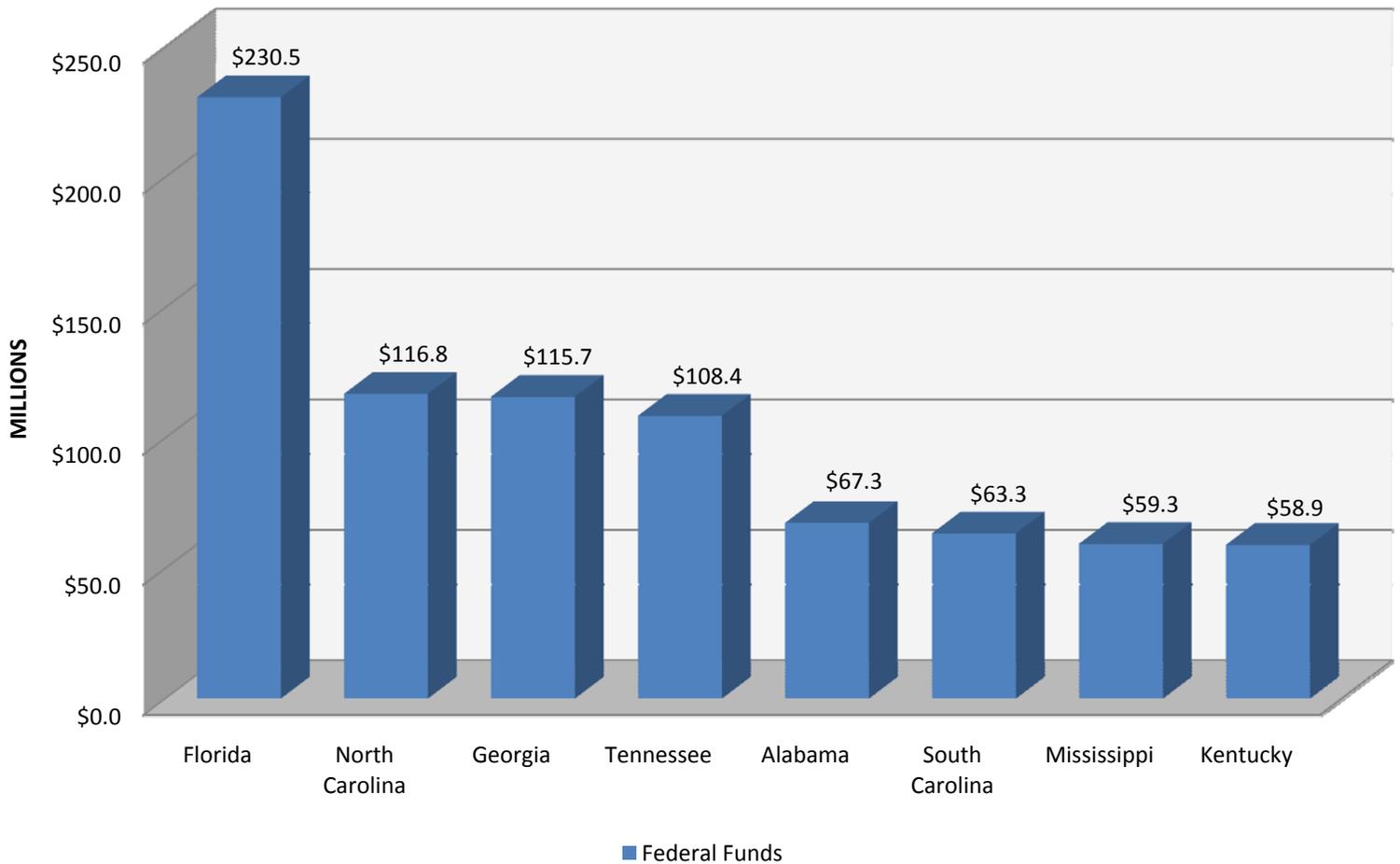
ALABAMA AVGAS AND JET FUEL TAX RATES FISCAL YEARS 2006 - 2010



Notes:

1. Alabama levies an excise tax on each gallon of fuel.
2. Revenue collections from Alabama's aviation fuel and jet fuel taxes are capped at \$600,000 per year.
3. Aviation and jet fuel taxes are dedicated to airport programs through the Airport Development Fund (ADF).
4. If revenue collections exceed \$650,000 in the previous year, the tax rates are reduced for the following year.
5. If tax receipts fall below \$550,000 in the previous year, the tax rates are increased for the following year.
6. The jet fuel tax generates approximately 80%-85% of total aviation fuels tax revenue.

FEDERAL FUNDING OF AIRPORT IMPROVEMENTS SOUTHEASTERN UNITED STATES FISCAL YEAR 2009



Source: Federal Aviation Administration, Office of Airports

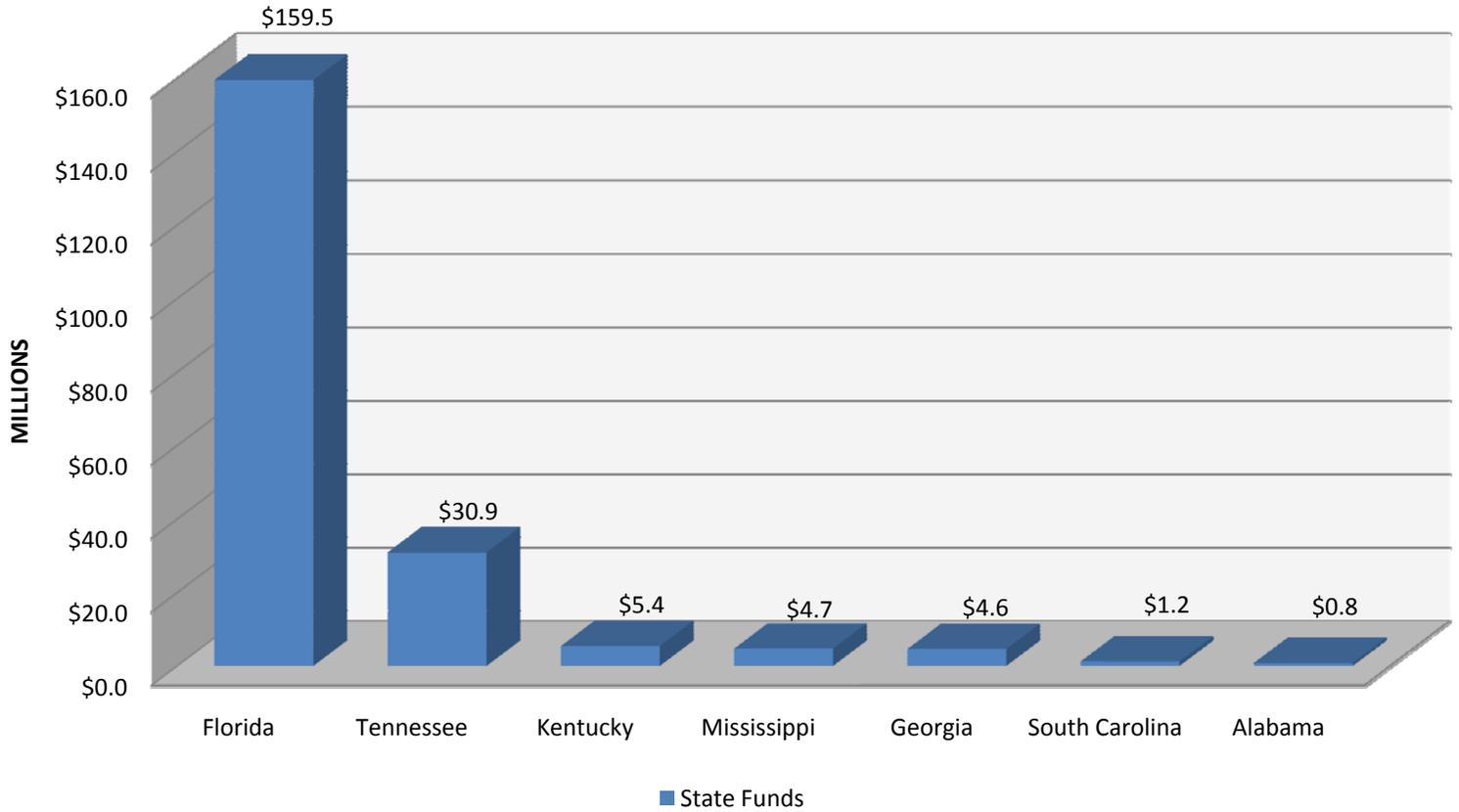
Notes:

1. The FAA provides 95% of the cost for an eligible airport improvement project.

AIRPORT IMPROVEMENT FUNDING LEVELS

SOUTHEASTERN UNITED STATES

FISCAL YEAR 2010



Notes:

1. Alabama trails all other southeastern states in the amount of state funds spent on airport improvements.
2. States derive funds for airport improvements from various revenue sources including aviation fuel taxes, other motor fuel taxes, general fund revenues, and other miscellaneous sources.