

# ***South Texas Regional Airport at Hondo***

## ***Business Plan***



*Prepared for:*



*Prepared by:*



**R.A. Wiedemann &  
Associates, Inc.**  
AVIATION CONSULTANTS



## FINAL TECHNICAL REPORT

### South Texas Regional Airport at Hondo Business Plan

#### 1. INTRODUCTION

THE PURPOSE OF THIS BUSINESS PLAN FOR South Texas Regional Airport at Hondo (HDO) is to assess potential means to improve the Airport's financial performance, economic development, and operation. To do this, the business plan will evaluate a number of potential operational and development scenarios and provide the City of Hondo with decision-making information. Our understanding of the current situation involves several components, including the potential release and/or highest and best use of Airport property, the recent departure of U.S. Aviation Academy, the benefits and costs of attracting corporate aviation, the potential for hangar development, the identification of revenue-producing development options for the Airport's landside areas, and a number of other facility-related issues.

##### 1.1 Understanding & Key Issues

Our understanding of South Texas Regional Airport at Hondo involves its position as a jet-capable facility that desires to expand its revenue base, develop a blueprint for moving into the future, and take advantage of the growing connection between local business/industrial development and aviation in the South Texas/San Antonio region. A growing rail yard and transloading facility at the south end of the Airport connects the facility with the energy exploration activities of the Eagle Ford Shale, along with agricultural production and raw materials transport. The City has developed a vision plan for the industrial park surrounding the Airport and it is now time to develop a business plan for the aviation side to attract businesses and users that will help the Airport achieve its new potential. We understand that this plan can be a dynamic vehicle to identify new aviation demand markets, support facilities, public-private investment opportunities, improved Airport financial and economic performance, and a better understanding of the mission and value of the Airport by City leadership. Thus, to become an economic hub in South Texas, it is likely that specific types of investment should occur, along with a growing perception of the new Airport brand. The Airport has significant upside potential, but must take a measured and deliberate business approach to reaching its goals.

The Airport is not without its challenges. The recent departure of U.S. Aviation Academy is anticipated to reduce operational activity and fuel sales at the Airport. In addition, the City has undertaken a process to release surplus Airport property for other development. That action has been accepted at the federal level and strategies are being mapped out to accomplish this objective.

Key issues that are recognized at the outset of the business planning process include the following:

- ***Desire to Run the Airport as a Business:*** In the past, the South Texas Regional Airport was operated more as a public utility than as a business. Prior to 2008, fuel was not offered at the Airport. City leadership recognizes the value of implementing a business

model for the operation of the Airport. This Business Plan is the first step in documenting the desired business practices for the Airport.

- ***Client Retention:*** As mentioned, the recent departure of U.S. Aviation Academy and the loss of the Air Evac Lifeteam rotorcraft tenant, place an increased emphasis on Airport tenant retention. This vital part of the revenue base is needed to support Airport operations.
- ***Airport Land Release:*** The large Airport size of roughly 3,500 acres has called into question the need for excess property. With a vision plan in place for the development of non-aviation Airport property, there is some desire to release property not needed for aviation purposes. As such, the City of Hondo has explored land release options with the FAA to determine the best path forward.
- ***Attraction of Corporate Aviation:*** With no based jets based, corporate aviation currently utilizes the Airport via itinerant aircraft operations. However, Airport management recognizes that corporate jets and business aviation generate significantly more revenue than smaller general aviation aircraft operations. As such, broadening of the revenue base at the Airport will occur more quickly with the attraction of more corporate aviation users.
- ***Airport Branding:*** The City has already begun a new branding program for the Airport with the name change from Hondo Municipal Airport to South Texas Regional Airport. The City recognizes that this process must be developed more fully. The Airport, with its large property holdings, has the opportunity to become the primary economic engine for the City and as such, must coordinate the Airport branding with the City's intended brand so that there are no mixed messages.
  - ***Market Niche:*** The South Texas Regional Airport has reached a stage of its growth where it will need definition of its market niche to advance its branding. This definition is driven both by market forces and by City strategic market planning. Given the potential non-aviation property development and attraction of industry from the San Antonio area, Hondo's market niche can be expanded to meet these demand segments. In addition, it could be that the oil industry becomes the next significant economic engine in the Hondo area. This Business Plan will help define the niche and the associated branding.
  - ***Coordinated Airport Marketing:*** Because of the number of planning and development projects at the Airport, the City is concerned that all economic development activities be coordinated. This coordination would prevent miscommunications and possible conflicts in messages conveyed to developers and other potential customers. The Business Plan should provide a vehicle that all parties can use as a consistent voice for future physical improvements, marketing, and economic development in the vicinity of the Airport.



- **Surface Access:** There are some issues regarding the current surface access to the Airport. On the positive side, the Airport is located very near U.S. Highway 90, with four-lane access to San Antonio. However, there is an active railroad line that parallels U.S. 90, which may block access to the Airport for short periods of time each day as trains pass through the area. Because of the railroad line's proximity to the Highway, a tractor-trailer cannot fit between the crossing and the stop light at U.S. 90. Coming from the Airport on Castro Avenue, this can present problems for large trucks that may be "stuck" partly on the railroad tracks while waiting at the stop light to access the Highway. Other issues involve the multiple surface access points to the Airport, some of which are used by heavy trucks from the rail transloading facility.
- **Streamlining Compatible Aviation and Non-Aviation Development Processes:** Businesses typically do not wait months or years to determine if they will be able to build at a given location. This is due in large part because they have too many options where delays are not an issue. The inventory effort will also examine the current development process at the Airport, including the building code process and any impediments to developing aviation or non-aviation property at the Airport. Options for streamlining the development process will be evaluated as a means of making the process at the Airport as business-friendly as possible.
- **Rental Car Availability:** The lack of rental car availability is a significant impediment to the attraction of corporate aviation. Companies that cannot land their aircraft and rent cars to visit job sites will often locate and use another airport that has those amenities. The rental car availability would not only benefit the Airport, it would benefit the City of Hondo as well.
- **Oil Industry Exploration:** The Eagle Ford Shale, buried roughly 12,000 feet below ground in south Texas, was discovered in the McMullen and LaSalle County area where it produces natural gas. In Maverick and Dimmitt Counties, the Eagle Ford Shale produces oil. Medina County is on the current fringe of the formation, but other formations are thought to be located deeper in the ground near Hondo. In fact, a significant number of drilling permits have been issued in the Hondo area, indicating that significant oil exploration may occur there within two years. The community is not currently prepared to accommodate a surge of population and housing needs. It is important to note that the Airport itself may be a location for drilling operations, sometime in the future. Thus, great care is needed in structuring any release of Airport property.
- **Airport Restaurant:** There were comments that an Airport restaurant is needed. In the past, there was a successful restaurant located at the Airport and some residents believe that another new eatery could succeed there.
- **Attraction and Support of Aviation-Dependent Businesses:** Companies located at South Texas Regional Airport, including Corrigan Air Center and RizoJet Avionics hold a key for the growth of aviation-related business on the Airport. Corrigan Air Center has a significant paint and interior refurbishing business that attract corporate aircraft from

around the nation. As companies like this grow, they deliver significant economic impact to both the City and the Airport. Attracting other potential aviation-dependent businesses can bring immediate and long term economic benefits to Hondo and South Texas Regional Airport.

- **Potential Runway Extension:** The City desires to reserve property for a primary runway extension in the event that industry is attracted to Hondo that requires more than 6,000 feet of runway. Any potential Airport land release will ensure that the appropriate runways can be extended to at least 7,000 feet to attract and keep corporate jet activity. The Business Plan will explore possible scenarios where a runway extension would be needed.

## **1.2 Desired End Products**

The desired end products produced as a result of this analysis include the following:

- Identify strategic initiatives for Airport development and operation.
- Present a suggested branding strategy for South Texas Regional Airport.
- Analyze the potential impacts of the attraction of more corporate aviation.
- Develop retention and expansion strategies for existing tenants such as Rizojet, Aviation Academy, Corrigan Aviation, and others. Explore plans for using rail yard growth to spur any associated aviation demand and development.
- Identify the need for an advertising and/or marketing strategy for the Airport.
- Explore new South Texas business opportunities including development/use of available Airport lands. This would include landside developable Airport property on the west side.
- Identify potential partnering opportunities with area schools or other businesses.
- Identify current business practices, lease terms, and systems.
- Identify any operational or staffing issues that may be improved.
- Identify needed Airport amenities and/or services.
- Discuss capital investment options.
- Present financial pro formas for the recommended plan.
- Show any physical or land use changes on the Airport Layout Plan, including any new hangars & taxiways.
- Develop an Internet website for the Airport.
- Develop short video for the Airport that can be accessed from the Airport's website.

## **1.3 Report Outline**

In order to address the issues described above and to produce the desired end products, this report has been organized to include the following sections:

- **Section 1** - Introduction
- **Section 2** - Background and Management Structure
- **Section 3** - Existing Airport Characteristics
- **Section 4** - Baseline Financial Projection



- **Section 5** - Business Plan Alternatives
- **Section 6** - Findings and Recommendations
- **Section 7** - Other Deliverables
- **Appendix A** - SWOT Analysis

## **2. BACKGROUND, MISSION, AND MANAGEMENT STRUCTURE**

THE RECENT DEPARTURE OF SOUTH TEXAS REGIONAL Airport's manager has created a greater need for long term continuity in the transition to new leadership. This Business Plan will serve as a blueprint for leadership to follow in reaching City goals for the Airport. The Plan will detail a plan of action that can be implemented by temporary or permanent leaders within the City. It should survive changes in administrations or airport managers. As such, the mission and direction of the Airport need to be foundational in developing the path forward, which is described in this Plan.

Understanding the historical background and management structure of South Texas Regional Airport (HDO) will enable the City to identify challenges and opportunities as decisions are made regarding the management and future personality of the Airport. Since 2006, millions of dollars have been invested in the Airport and its infrastructure. Those investments were made on the basis of implementing a vision for the Airport. This Business Plan will examine the historical vision and incorporate an updated set of goals and objectives that are based upon the results of market demand and public input. All aspects of control, management and operations of the Airport, including, but not limited to, the operating structure lease agreements, minimum standards, and other management considerations now in place will require a thorough review by the City.

To help establish the grounds for any changes in management structure or operations, a clearly defined and realistic mission for the Airport is needed to provide an overall goal for guiding the operation of the facility. To be effective, this mission must reflect the desires and goals of the community and its elected and appointed representatives. To adequately lay the groundwork for future management structure decisions, the following topics are discussed:

- Airport Mission
- Airport Management Structure

### **2.1 Airport Mission**

The role of South Texas Regional Airport is that of a general aviation facility, providing general aviation services for regional air transportation. South Texas Regional Airport accommodates general aviation activity including all types of small to medium propeller and jet powered aircraft. The Airport is owned and operated by the City of Hondo.

South Texas Regional Airport is an important economic/civic asset for Hondo and other smaller communities along the US 90 between San Antonio and Uvalde. Although there is an airport at Castroville, it cannot accommodate the large business jets that can use South Texas Regional Airport. As part of the National Air Transportation System, South Texas Regional functions to meet the air transportation needs for a range of constituents and agencies including; business, recreational, aeromedical evacuation, and critical emergency services during a disaster or serious incident. It is also accommodates general aviation flight training operations incompatible with large air-carrier airports in San Antonio.

Currently, there is no formal mission statement for South Texas Regional Airport. However, initial discussions with the City and Airport Management indicated the following mission goals for the Airport:

- To operate a safe, efficient and cost-effective airport providing for general aviation operations.
- To retain existing clientele while taking full advantage of available land, runway size and location near San Antonio to develop revenue producing facilities, attract based aircraft and provide continued growth.
- To operate in conformity with all applicable laws and Federal Aviation Administration (FAA) requirements.
- To be self-supporting and operate without cost to the City's General Fund.

While there may be some variety of opinion, South Texas Regional Airport is recognized by many to be an asset to the community, providing essential air transportation infrastructure needed for both business and personal travel. A proposed mission statement for the Airport would include the following:

*"It is the mission of South Texas Regional Airport to serve as an engine for economic development in the Hondo area, providing operational safety; outstanding service; and a secure environment for aircraft owners, operators, and the flying public."*

This mission statement reflects the City's/Airport's commitment to provide facilities and services that meet the needs and expectations of the community.

## **2.2 Airport Management Structure**

As mentioned, HDO is owned by the City of Hondo. The current management of the Airport is subject to the City's organizational structure. In this regard, Figure 1 presents an Organizational Chart, showing the direct lines of responsibility and formal communication for airport management, as it was operated in the past. This Chart is in the process of being revised by City leadership. Currently, the City is in the process of finding an Airport Manager.

The City Manager has recommended a slightly new management structure for the Airport. In this regard, the desire is to have the City's economic development director position work directly with the airport manager position. Because the Airport is the single largest economic development sector in the City, it makes sense to coordinate both the economic development and airport management functions. That way, efforts on behalf of these two activities cannot be lost or overlooked. Where economic development interests may be at variance with airport management requirements, those differences can be resolved before they become problems. Figure 2 presents the new Organization Chart as determined from discussions with City leadership. Moving forward, the staff of South Texas Regional Airport will consist of the Airport Manager, one administrative position, three full-time airport technicians and one part-time airport technician. Under the new system, the Airport Manager and the Airport Administrative Assistant would report directly to the City Manager.



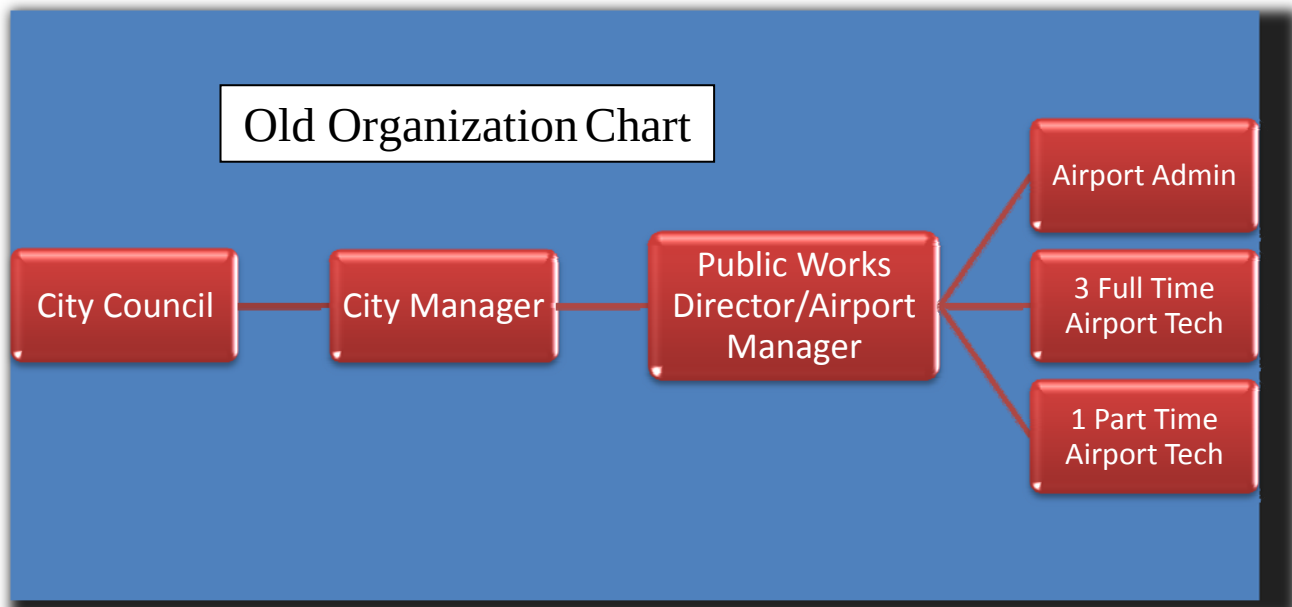


Figure 1 – Former Organization Chart

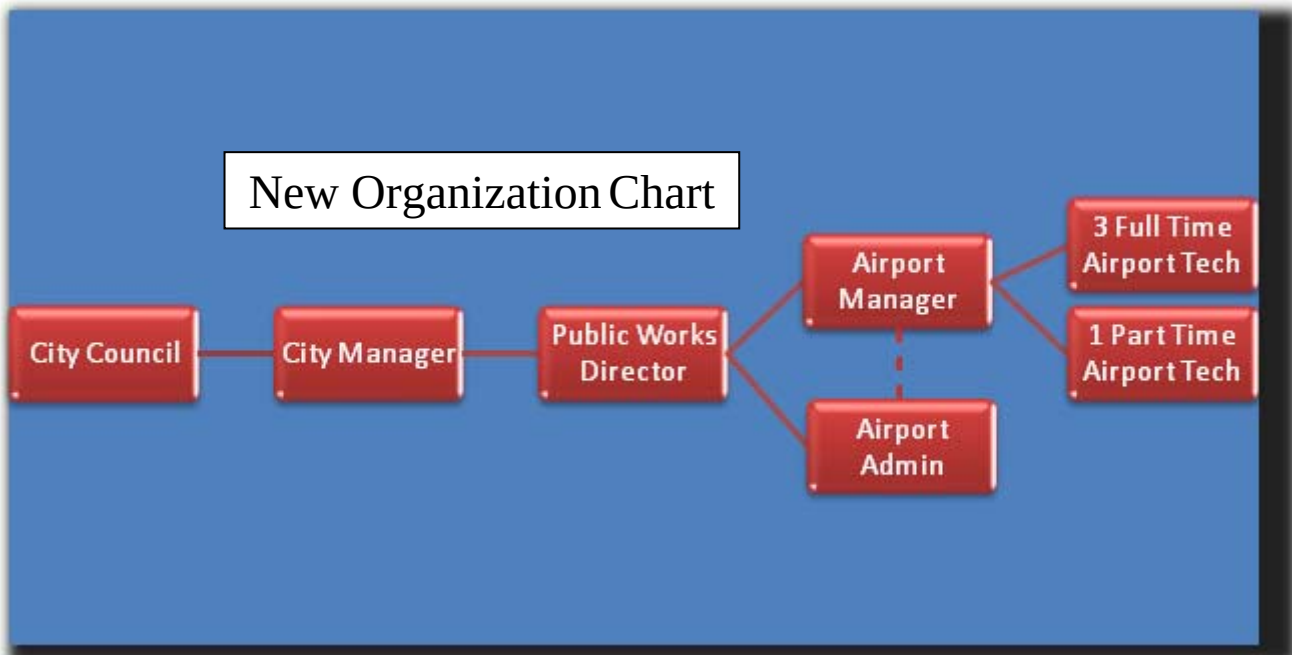


Figure 2 – New Organization Chart

### Airport Operations and Staffing

South Texas Regional Airport is staffed during the week 7:00 am to 5:00 pm, Monday through Friday, and on call on Saturday and Sunday. Although the Airport staffing is primarily

during business hours, the Airport and terminal building are open 24/7 for use by pilots and passengers.

The day-to-day operation of the Airport is the responsibility of the Airport Manager. The Airport Manager's position should incorporate all facets of Airport administration, lease management, Airport policies and regulations, and the responsibility for the equipment and maintenance of grounds at the Airport. In addition, the Airport Manager must have a working knowledge of Federal, State, and local laws and regulations relating to aviation. From an administrative standpoint, the Airport Manager oversees five Airport staff members: an administrative assistant, three full-time airport technicians and one part-time airport technician. Because the Airport Manager will be working and coordinating with the Economic Development Director, he can input the marketing efforts for the Airport. It is assumed that the Economic Development Director will be concentrating on the attraction of corporate activity and aviation businesses, as well as the coordination and marketing of the non-aviation property. Economic development activity would also include the search for new tenants and business opportunities along with the implementation of the Vision Plan for the South Texas Regional Intermodal Park.<sup>1</sup>

The Airport technicians perform a variety of tasks including fueling and general ramp service operations, maintenance of facilities and equipment, landscaping, janitorial duties, tracking tenants, billing transient aircraft, and minor repair and maintenance of runway facilities (such as runway marker lights, windsocks, and signs). Later in this report, the Business Plan will examine the forecast of future growth and make recommendations concerning Airport operations and staffing.

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<sup>1</sup> Source: *Vision Plan for South Texas Regional Intermodal Park at Hondo, TX*, Tetra Tech, Dec. 2011.

### 3. EXISTING AIRPORT CHARACTERISTICS

THE SERVICE AREA FOR SOUTH TEXAS REGIONAL Airport at Hondo, Texas is roughly based on a 45-minute driving distance and the location of alternate airports. The Airport service area outline's shape is a result of this 45-minute driving distance, incorporating traffic patterns associated with the area roadways. Included within this area are portions of six counties in addition to Medina County. Figure 3 represents a graphic depiction of the general aviation service area as defined in this analysis. There are a number of key economic and demographic measures of general aviation demand from within the region.



Figure 3 – Service Area Airports

#### 3.1 Airport Facilities

According to the U.S. Bureau of Census, Hondo, TX has a total area of about 6,150 acres. Of this land, roughly 2,383 acres make up the South Texas Regional Airport. With almost 40 percent of the City's land area, the Airport is the most significant economic development asset available in the region. Figure 4 presents a map of the City of Hondo, showing the original 3,518 acre Airport area in relation to the other land areas in the City. In 2010, the Airport had an economic impact of \$31.5 million and supported 299 jobs.<sup>1</sup>

<sup>1</sup> Source: [http://www.hondo-tx.org/docs/economic\\_impact\\_2011.pdf](http://www.hondo-tx.org/docs/economic_impact_2011.pdf)



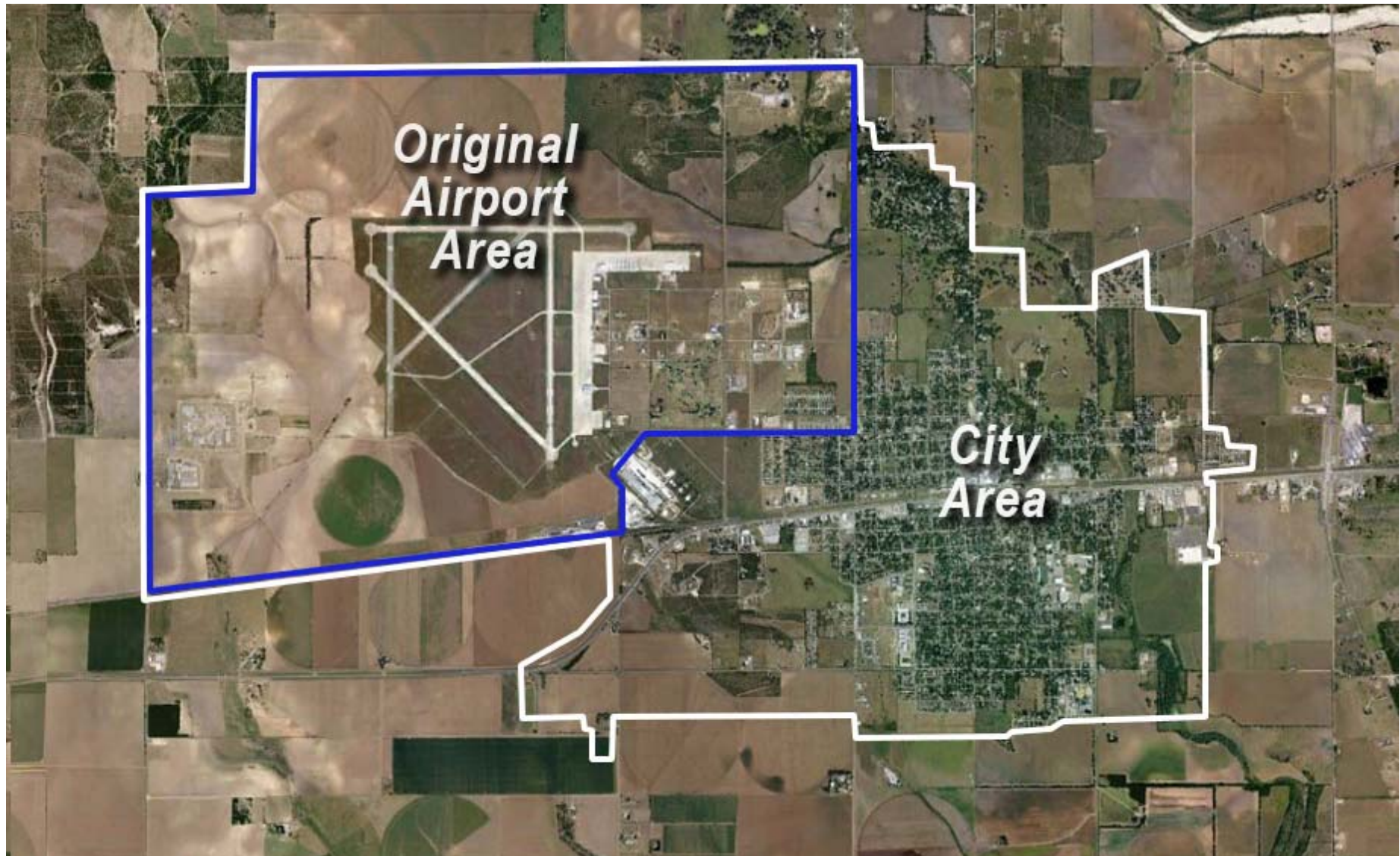


Figure 4 - Airport and City Relative Size

## Runway Information

South Texas Regional Airport has four active runways. Runway 17L-35R is 6,002 feet in length by 100 feet in width. Its parallel, Runway 17R-35L, is 3,224 feet in length by 140 feet in width. The longest crosswind runway is Runway 13-31, which is 5,545 feet in length by 150 feet in width. The fourth runway is designated 8-26, with a length of 3,451 feet in length by 75 feet in width. These runways are suitable for all types of aircraft up to and including medium and some large sized business jets. Table 1 identifies the existing runway data.

The Airport's design aircraft is a medium jet aircraft (C-II) such as a Cessna Citation X, the Challenger 604, or the Gulfstream IV. That design aircraft has a wingspan of 79 feet or less, a tail height less than 30 feet, an approach speed of between 121 and 141 knots, and a maximum takeoff weight of less than 60,000 pounds.

| <b>Table 1 – South Texas Regional Airport Runway Data</b> |                         |                       |                         |                       |
|-----------------------------------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| <b>Item</b>                                               | <b>Runway</b>           |                       |                         |                       |
|                                                           | <b>17L-35R</b>          | <b>17R-35L</b>        | <b>13-31</b>            | <b>8-26</b>           |
| Length                                                    | 6,002'                  | 3,224'                | 5,545'                  | 3,451'                |
| Width                                                     | 100'                    | 140'                  | 150'                    | 75'                   |
| Surface                                                   | Concrete                | Asphalt               | Concrete                | Concrete              |
| ARC                                                       | C-II                    | B-II                  | B-II                    | B-II                  |
| Lighting                                                  | Medium Intensity Runway | No Lights             | Medium Intensity Runway | No Lights             |
| Marking                                                   | Non-Precision           | Non-Precision         | Non-Precision           | Basic                 |
| Weight Bearing Capacity                                   | Single Wheel - 30,000   | Single Wheel - 30,000 | Single Wheel - 30,000   | Single Wheel - 30,000 |
| Navigational & Visual Aids                                | RNAV (GPS), NDB, PAPI   | None                  | None                    | None                  |

Table 2 shows the taxiways and their descriptions.

| <b>Table 2 – South Texas Regional Airport Taxiways</b> |                    |
|--------------------------------------------------------|--------------------|
| <b>Taxiway</b>                                         | <b>Description</b> |
| A, F                                                   | Partial Parallel   |
| B, C, D, E                                             | Connector Taxiways |

The highest existing design standards for the Airport are listed on the Airport's current Airport Layout Plan (ALP) as Airport Reference Code (ARC) C-II. By way of explanation, an ARC is used to relate airport design criteria to the operational and physical characteristics of the airplanes intended to operate at the airport. The coding system has two components: the aircraft approach category and the airplane design group. The first component is depicted by a letter (A, B, C, D, or E) and is related to the aircraft approach speed. The second component is depicted



by a Roman numeral and is related to the airplane wingspan. The categories of each component are described as follows:

- Aircraft Approach Category is based on 1.3 times an aircraft's stall speed in their landing configuration at their maximum certificated landing weight:
  - A: Speed less than 91 knots.
  - B: Speed 91 knots or more but less than 121 knots.
  - C: Speed 121 knots or more but less than 141 knots.
  - D: Speed 141 knots or more but less than 166 knots.
  - E: Speed 166 knots or more
- Airplane Design Group is based upon wingspan:
  - I: Up to but not including 49 feet.
  - II: 49 feet up to but not including 79 feet.
  - III: 79 feet up to but not including 118 feet.
  - IV: 118 feet up to but not including 171 feet.
  - V: 171 feet up to but not including 214 feet.
  - VI: 214 feet up to but not including 262 feet.

## **Landside Facilities**

Landside facilities are necessary for aircraft storage and passenger modal interface. However, they also provide for revenue production at most general aviation airports. As such, a thorough inventory of these facilities is important to the Business Plan. The majority of landside facilities at South Texas Regional Airport are located east of Runway 17L-35R and are accessible from U.S. Highway 90A via Castro Avenue, then Carter Avenue and then Vandenberg Road. They include the terminal building, terminal building aircraft parking apron, fuel facility, T-Hangars, shade hangars, conventional hangars and auto parking facilities (Table 3 and Figure 5). There are also numerous other buildings located on the east side of the airport that are non-aviation use and are not associated with landside facilities for the airport.

| <b>Table 3 - HDO Landside Building Inventory *</b> |                   |                                 |                          |
|----------------------------------------------------|-------------------|---------------------------------|--------------------------|
| <b>Bldg #</b>                                      | <b>Structure</b>  | <b>Occupants</b>                | <b>Size (SF-Approx.)</b> |
| 1                                                  | Hangar            | Rusty Lindeman Hangar           | 34,200                   |
| 2                                                  | Hangar            | AirEvac Hangar                  | 2,310                    |
| 3                                                  | Hangar            | Rizo Jet Avionics International | 9,750                    |
| 4                                                  | Fuel Facility     | City of Hondo                   | 1,610                    |
| 5                                                  | Terminal Building | City of Hondo - FBO             | 4,750                    |
| 6                                                  | Hangar            | Corrigan Air Center             | 10,000                   |
| 7                                                  | Hangar            | Corrigan Air Center             | 20,000                   |
| 8                                                  | Hangar            | Namgis Hangar                   | 4,900                    |
| 9                                                  | Hangar            | EAA Hangar                      | 13,050                   |
| 10                                                 | Hangar II         | City of Hondo                   | 23,650                   |
| 11                                                 | T-Hangar          | City of Hondo                   | 4,025                    |

| Table 3 - HDO Landside Building Inventory * |              |               |                   |
|---------------------------------------------|--------------|---------------|-------------------|
| Bldg #                                      | Structure    | Occupants     | Size (SF-Approx.) |
| 12                                          | T-Hangar     | City of Hondo | 4,025             |
| 13                                          | T-Hangar     | City of Hondo | 9,975             |
| 14                                          | T-Hangar     | City of Hondo | 9,975             |
| 15                                          | T-Hangar     | City of Hondo | 9,975             |
| 16                                          | Shade Hangar | City of Hondo | 9,975             |
| 17                                          | Shade Hangar | City of Hondo | 9,975             |
| 18                                          | Shade Hangar | City of Hondo | 9,973             |
| 19                                          | Hangar I     | City of Hondo | 13,780            |

Source: KSA Engineers, Inc.  
 \*Landside Building Inventory does not match that depicted on the Airport Layout Plan and Terminal Area Plan prepared by DMJM/AECOM dated May 2007. The structures and structure legend is incomplete on the Terminal Area Plan.



Figure 5 - Landside Buildings

## ***Apron Area***

Paved tie-downs are used for outside aircraft storage. Tie-downs are a minor part of the revenue stream for the Airport. Currently, there are a total of approximately 16 paved tie-down spaces in front of the Terminal Building. There are hundreds of tie-downs on the east side apron, but the majority are no longer adequately marked and are not used. Some larger aircraft may use more than one tie-down space at a time. Paved apron space is used to accommodate both based and transient aircraft parking needs. The current Airport capacity for based aircraft includes both tie-down and hangar spaces and as such, has been estimated as high as 300 based aircraft.

## ***Automobile Parking***

Automobile parking spaces at the Airport are somewhat limited due to the current small landside areas assigned for this function. There are approximately 19 on-Airport parking spaces at the main terminal. Parking is available at each conventional hangar for tenant and customer use. Figure 5 shows the different parking locations on the Airport for public use. During peak periods of activity in dry weather, numerous spaces may be created in grassy areas around the Airport. Rain could affect the usefulness or practicality of such ad hoc parking areas should they be needed for large events. Fortunately, if lack of permanent all-weather space for auto parking becomes an issue in the future, the Airport has an abundance of available land that may be developed into additional paved parking spaces.

## ***Support Services***

This section describes the support services and related facilities at South Texas Regional Airport. Services offered to general aviation users of the facility include fueling, aircraft maintenance, avionics, aircraft storage, aircraft rental, aircraft painting, aircraft interior/upholstery, and flight training.

## ***Fixed Base Operators***

South Texas Regional Airport has one FBO and several Specialty Aviation Service Operators (SASOs) located at the Airport:

### **FBO**

- ***South Texas Regional Airport at Hondo:*** South Texas Regional Airport at Hondo is the name of the City-owned Fixed Base Operation at the Airport. Currently, the City Terminal provides fueling services and operates the main 4,750 square foot general aviation terminal building off Vandenberg Road. The terminal building opened in October 2008 and contains offices, meeting space, a pilot lounge, planning room and bathrooms; fuel sales and service including a 24 hour 100LL self-serve pump; and tie-down rentals.

### On-Airport SASOs

- **Rizojet Avionics International** offers a variety of services related to turbojet aircraft including maintenance, avionics installations and repair, airframe modifications, parts, and sales
- **Corrigan Air Center** offers custom aircraft interior installations, aircraft painting, and avionics services for the turboprop and light jet market.

### Fuel Storage and Dispensing Equipment

The City derives revenues from the sale of fuel and owns a fuel farm at the Airport. The fuel farm is located on the east side of the Airport, just south of the terminal building. The City operated fuel farm has two 12,000 gallon above ground tanks, one each for LL Avgas and Jet A fuel. The Airport operates the on-airport fuel island, delivery trucks and self-serve 100LL fuel 24 hours per day by credit card.

## 3.2 Demographic Characteristics

In numerous studies accepted by the FAA, population growth has been related to the need for more air transportation facilities and services. Hondo is a part of the tri-city area known as the Texas Triangle, which incorporates San Antonio, Dallas/Fort Worth, and Houston. This area is one of eleven megaregions in the United States. In 2010, 17,745,584 people were counted by the U.S. Census Bureau as living in the Texas Triangle Megaregion. Between 2000 and 2010, the Megaregion grew by 3,444,454 people, which accounted for 80 percent of Texas' total growth over the decade.

Table 4 presents the historical population trends for the study area. As shown, each county in the study area, with the exception of Zavala, has experienced positive growth in population since 1990. Medina County currently has the second highest population of all the counties (46,116), second only to Bexar (1,723,561) because the city of San Antonio is located in Bexar County. Medina also has the second highest growth over the period at 68.2 percent, with Bandera County recording the highest growth of all the counties at 93.4 percent. For the entire service area, there was an increase of 44.8 percent since 1990. While this increase is impressive when considering the overall U.S. growth of 24.8 percent, it is slightly below the Texas State population increase of 48.1 percent over the same period.

**Table 4 - Historical Population Trends: Hondo GA Service Area**

|              | 1990      | 1995      | 2000      | 2005      | 2010      | Percent Change |
|--------------|-----------|-----------|-----------|-----------|-----------|----------------|
| Atascosa, TX | 30,554    | 33,962    | 38,805    | 42,495    | 45,004    | 47.3%          |
| Bandera, TX  | 10,629    | 13,690    | 17,755    | 19,428    | 20,554    | 93.4%          |
| Bexar, TX    | 1,187,775 | 1,303,692 | 1,398,834 | 1,529,270 | 1,723,561 | 45.1%          |
| Frio, TX     | 13,557    | 15,898    | 16,203    | 16,618    | 17,216    | 27.0%          |
| Medina, TX   | 27,422    | 33,838    | 39,484    | 42,977    | 46,116    | 68.2%          |
| Uvalde, TX   | 23,320    | 24,721    | 25,900    | 26,368    | 26,468    | 13.5%          |



**Table 4 - Historical Population Trends: Hondo GA Service Area**

|                         | 1990              | 1995              | 2000              | 2005              | 2010              | Percent Change |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Zavala, TX              | 12,161            | 12,035            | 11,636            | 11,565            | 11,726            | -3.6%          |
| <b>Study Area Total</b> | 1,305,418         | 1,437,836         | 1,548,617         | 1,688,721         | 1,890,645         | 44.8%          |
| <b>Texas State</b>      | <b>17,056,755</b> | <b>18,958,751</b> | <b>20,944,499</b> | <b>22,778,123</b> | <b>25,253,466</b> | <b>48.1%</b>   |

Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, U.S. Department of Commerce

Similar to population growth statistics, there are also aviation forecast studies that relate the growth of employment and income to the demand for aviation facilities and services. Table 5 presents historical employment trends for the Hondo Service Area. As shown, Medina County had the third largest percent increase in total employment within the study area with 60 percent. This is above the Texas State increase of 54.6 percent, and behind Atascosa County which had 84.6 percent growth, and Bandera County which had 106.9 percent growth.

**Table 5 - Historical Employment Trends: Hondo GA Service Area**

|                         | 1990             | 1995              | 2000              | 2005              | 2010              | Percent Change |
|-------------------------|------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Atascosa, TX            | 9,958            | 12,209            | 15,431            | 16,908            | 18,381            | 84.6%          |
| Bandera, TX             | 3,881            | 4,990             | 6,330             | 7,463             | 8,029             | 106.9%         |
| Bexar, TX               | 636,778          | 737,357           | 849,480           | 915,356           | 1,009,112         | 58.5%          |
| Frio, TX                | 5,669            | 5,788             | 5,706             | 5,978             | 7,071             | 24.7%          |
| Medina, TX              | 9,686            | 12,416            | 14,282            | 14,788            | 15,493            | 60.0%          |
| Uvalde, TX              | 10,528           | 11,531            | 13,085            | 12,978            | 13,244            | 25.8%          |
| Zavala, TX              | 3,686            | 3,619             | 4,193             | 4,608             | 4,810             | 30.5%          |
| <b>Study Area Total</b> | 680,186          | 787,910           | 908,507           | 978,079           | 1,076,140         | 58.2%          |
| <b>Texas State</b>      | <b>9,242,899</b> | <b>10,439,859</b> | <b>12,151,442</b> | <b>13,012,291</b> | <b>14,285,773</b> | <b>54.6%</b>   |

Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, U.S. Department of Commerce

Per Capita Personal Income (PCPI) also has an impact on the demand for aviation facilities in the service area. Intuitively, the higher the level of economic activity in a region, the more that aviation facilities and services will be demanded. Table 6 shows the historical PCPI in the service area for the same time period.

**Table 6 - Historical Per Capita Personal Income Trends: Hondo GA Service Area**

|              | 1990     | 1995     | 2000     | 2005     | 2010     | Percent Change |
|--------------|----------|----------|----------|----------|----------|----------------|
| Atascosa, TX | \$11,963 | \$14,421 | \$19,513 | \$23,272 | \$29,011 | 142.5%         |
| Bandera, TX  | \$15,406 | \$19,550 | \$26,400 | \$29,530 | \$34,746 | 125.5%         |

**Table 6 - Historical Per Capita Personal Income Trends: Hondo GA Service Area**

|                           | 1990     | 1995     | 2000     | 2005     | 2010     | Percent Change |
|---------------------------|----------|----------|----------|----------|----------|----------------|
| Bexar, TX                 | \$16,095 | \$20,427 | \$27,386 | \$31,230 | \$34,761 | 116.0%         |
| Frio, TX                  | \$10,778 | \$11,932 | \$15,467 | \$18,528 | \$23,807 | 120.9%         |
| Medina, TX                | \$12,646 | \$15,939 | \$19,756 | \$24,149 | \$30,989 | 145.0%         |
| Uvalde, TX                | \$12,054 | \$15,050 | \$19,216 | \$23,726 | \$30,469 | 152.8%         |
| Zavala, TX                | \$7,004  | \$9,068  | \$10,661 | \$14,621 | \$19,109 | 172.8%         |
| <b>Study Area Average</b> | \$12,278 | \$15,198 | \$19,771 | \$23,579 | \$28,985 | <b>136.1%</b>  |
| <b>Texas State</b>        | \$11,963 | \$14,421 | \$19,513 | \$23,272 | \$29,011 | 142.5%         |

Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, U.S. Department of Commerce

The six-county service area displayed an average PCPI increase of 136.1 percent from 1990 to 2010. This is just below the Texas State PCPI increase of 142.5 percent over the same period. In 2010, Medina County displayed the third highest PCPI for the service area at \$30,989. Zavala County displayed the greatest percent increase of 172.8 percent, but currently maintains the lowest PCPI in the study area at \$19,109. The average PCPI for the total study area of \$28,985 lags just behind the Texas State average of \$29,011.

### 3.3 Local Economic Drivers

Because of its significance as an economic development engine, the City of Hondo is merging some of the Airport Manager's job responsibilities with the City's Economic Development Director's responsibilities. The reasoning given is that the Airport is the source of most or all of the economic development potential for the entire City. The City will use its economic funds to market the Airport. This has been borne out in a recent Vision Plan that targets the Airport for growth and economic development.

### Vision Plan for South Texas Regional Intermodal Park<sup>2</sup>

The City of Hondo has undertaken two planning efforts for the aviation and non-aviation portions of existing Airport property. Several years ago the City adopted a Vision Plan to pursue the orderly development of the Airport industrial intermodal park facility. In 2012, the City in association with TxDOT undertook an Airport Business Plan to identify strategic direction regarding the Airport's future aviation-related activities. Thus, both aviation and non-aviation property at the Airport have been or are being subjected to study. The ultimate goal is to provide economic development opportunities that will help fund the Airport through the long term future.

The Vision Plan for this evolving business park complex is designed to identify the interaction potential between air, rail, and trucking opportunities. The City's overall vision is to diversify its employment centers while developing its Airport and industrial park as one of the

<sup>2</sup> Source: Vision Plan for South Texas Regional Intermodal Park at Hondo, Texas, Tetra Tech, 2011.

most desired locations to operate a business. This vision will help build and promote private and public partnerships within the industrial intermodal park.

The South Texas Regional Intermodal Park is strategically located adjacent to major transportation corridors. The site has access to U.S. 90 which is a major corridor to Texas, California, and Mexico. The site also has dual rail service being provided by Union Pacific Railroad and Burlington Northern Santa Fe (BNSF) Railroad with competitive rail tariffs. The industrial park is also home to the Hondo Railway which is the short line railroad operator within the Park. The Hondo Railway was recently named Shortline of the Year at BNSF Railway's Annual Shortline Conference in 2011. The intermodal site is conveniently located 26 miles from San Antonio, Texas.

Long range plans for the Intermodal Park have been illustrated graphically in the Vision Plan by Tetra Tech and are reproduced in this document (see Figure 6). As shown, the Plan allocates space for the following potential uses:

|                             |                  |
|-----------------------------|------------------|
| • Railway Area              | 215 Acres        |
| • Warehouse/Manufacturing   | 280 Acres        |
| • Office/Retail             | 100 Acres        |
| • Recreation/Golf/Parks     | 150 Acres        |
| • Civic Center/Governmental | 115 Acres        |
| • Air Cargo                 | 120 Acres        |
| • Other Aviation Expansion  | <u>570 Acres</u> |
| • TOTAL LAND AREA           | 1,550 Acres      |

While these areas are generalized and are allocated primarily for discussion purposes, they show the original conception process for the utilization of Airport property. The Airport Business Plan is currently updating and further refining some of the original land use acreage recommendations of the Vision Plan.

## **Hondo Railway**

Business activity in Hondo has accelerated in concert with the growth of the greater San Antonio metropolitan area. This growth has taken the form of energy exploration and production, railroad yard expansion, industrial expansion, and specialty business growth. In particular, the discovery of oil and gas in the rich Eagle Ford Shale play has catapulted the local rail yard at the Airport into an economic engine which economically supports the Airport's operation. Other factors are involved, but the demand for transloading facilities has grown exponentially in the past three years.

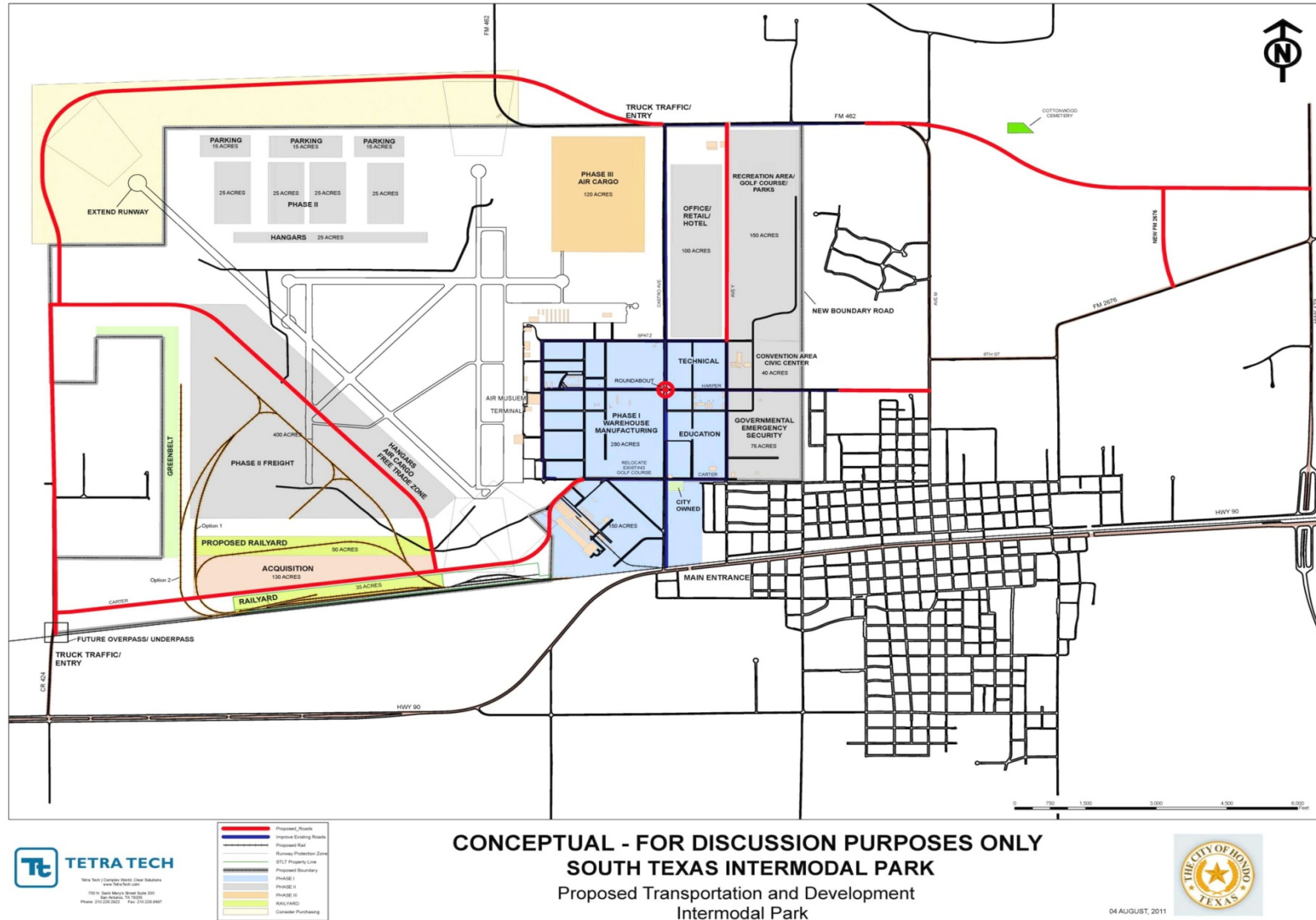


Figure 6 - Vision Plan for South Texas Intermodal Park



Hondo Railway's 175 acre bulk transloading railyard is strategically located on the Hondo Airport 26 miles west of San Antonio and 40 miles north of the Eagle Ford Shale oil field, with close proximity to major interstates I-35, I-10, I-37, and US Highway 90. There is a daily local rail service interchange along with three days a week manifest interchange service from both BNSF and UP Railway companies. Dual Class I (BNSF and UP) rail service ensures flexible scheduling and competitive freight rates for bulk shipping of the following major product lines:

- Ethanol
- Petroleum
- Oil Field Service (Frac Sand)
- Agriculture
- Food Grade Sweetener

Hondo Railway receives incoming unit train shipments of high fructose corn syrup, corn starch, and ethanol destined for the San Antonio market, and incoming manifest shipments of frac sand destined for the Eagle Ford Shale field. In addition, the Hondo Railway ships outbound crude oil from the Eagle Ford Shale field destined for ports and refineries. There are a number of affiliated companies that handle most of the 'rail to truck' and 'truck to rail' bulk products transloading at the Hondo railyard. Jobs associated with the Hondo Railway have increased from 24 in 2006 to 124 in 2012.

## **Energy Exploration**

The recent energy boom in the U.S. has been brought about by new technology and the science of hydraulic fracturing (fracking). Communities located over large shale plays have been subject to significant growth as energy companies send workers and technicians to the drilling sites. Notably, jet-capable airports in these areas have enjoyed significant increases in aircraft activity from energy company fleets. For example, three airports in the Bakken Shale Play in North Dakota have experienced unprecedented growth in aviation activity: Dickinson-Theodore Roosevelt Regional Airport, Minot International Airport, and Williston-Sloulin Field International Airport. Dickinson's airport had 4,900 general aviation operations in 2010. The energy company aviation activity increased that number to 11,650 in 2011. The estimate for 2012 is 14,400 aircraft operations. Similarly, Minot International experienced 11,500 itinerant general aviation operations in 2009. In 2012 this activity was estimated to total 15,200. Williston's airline passenger traffic has grown from 11,415 enplanements in 2009 to an estimated 32,400 in 2012. In all of these instances, the growth has been directly related to the energy exploration and production activity in the region.

In south Texas, a similar energy boom is underway with the Eagle Ford Shale Play. A typical airport in the heart of the shale play is Cotulla-La Salle County Airport. Discussions with their Airport Manager indicated that in the last 3 years, general aviation activity has doubled, thanks to the uptick in energy exploration activity. Much of the activity has involved business jets that make up the energy companies' fleets.

Medina County is currently on the edge of the Eagle Ford Shale Play. Even so, since 2005, there have been 411 drilling permits approved in Medina County. In 2012 alone, 159 drilling permits were approved for 12 different operators (Table 7) in Medina County. It is anticipated that increased drilling activity in the County will bring more itinerant jet and business aviation aircraft to South Texas Regional Airport.

| <b>Table 7 - Medina County Drilling Permits Approved in 2012</b> |                         |
|------------------------------------------------------------------|-------------------------|
| <b>Company Name</b>                                              | <b>Permits Obtained</b> |
| 21st Fox Energy Texas, Inc.                                      | 1                       |
| 338 Oil & Gas, Inc.                                              | 3                       |
| Activa Resources, LLC.                                           | 7                       |
| Black Creek Oil Company, LLC.                                    | 1                       |
| Blackbird Oil & Gas, LLC.                                        | 1                       |
| Enterprise Products Operating, LLC.                              | 1                       |
| Landmen of Texas, Inc.                                           | 3                       |
| Nails Operating Company, LLC.                                    | 5                       |
| Production Resources, Inc.                                       | 10                      |
| RLU Operating, LLC.                                              | 2                       |
| Rorico Oil Company                                               | 2                       |
| Texas Secondary Oil Corporation                                  | 123                     |
| <b>Total</b>                                                     | <b>159</b>              |

Source: Texas Railroad Commission <http://www.rrc.state.tx.us>

### 3.4 Aviation Activity

One measure of an airport's economic influence is the aviation activity that accommodates each year. At South Texas Regional, the Airport had a significant growth curve that was fueled by the establishment of a flight training program for international students (see Table 8). U.S. Aviation Academy, a branch operation of the Denton Airport-based flight training company, located at South Texas International Airport in 2010. This move dramatically increased operations because of the intensity of training activity. Unfortunately, differences with the FAA over certification of foreign flight students led to the withdrawal of the operation in 2012. Without the flight training activity, the number of aircraft operations are anticipated to be reduced significantly. Table 8 also shows an estimate of the impact of the loss of U.S. Aviation Academy in mid-2012.

| <b>Table 8 - Aircraft Operational Activity at HDO</b> |                 |                     |                 |                         |
|-------------------------------------------------------|-----------------|---------------------|-----------------|-------------------------|
| <b>Year</b>                                           | <b>Military</b> | <b>GA Itinerant</b> | <b>GA Local</b> | <b>Total Operations</b> |
| 2008                                                  | 18,720          | 2,800               | 5,600           | 27,120                  |
| 2009                                                  | 18,720          | 2,800               | 5,600           | 27,120                  |
| 2010                                                  | 0               | 75,000              | 20,000          | 95,000                  |

| <b>Table 8 - Aircraft Operational Activity at HDO</b> |                 |                     |                 |                         |
|-------------------------------------------------------|-----------------|---------------------|-----------------|-------------------------|
| <b>Year</b>                                           | <b>Military</b> | <b>GA Itinerant</b> | <b>GA Local</b> | <b>Total Operations</b> |
| 2011                                                  | 0               | 75,000              | 20,000          | 95,000                  |
| 2012*                                                 | 100             | 35,000              | 10,000          | 45,100                  |

\* Estimated by Consultant

There are an estimated 31 based aircraft at the Airport. Of these, 25 are single engine, fixed wing aircraft, two are multi-engine aircraft, and four are helicopters. One of the purposes of the Business Plan is to increase activity at the Airport, and that includes increasing the number of based aircraft in the future.

### **3.5 Ground Access Infrastructure and Services**

One of the requirements of a competitive economic development environment is the need for adequate ground transportation infrastructure and services. In this regard, the Hondo service area has a network of roadways that provide good ground connectivity throughout the State. The Airport is located just off U.S. Highway 90, which connects Hondo to San Antonio to the east (26 miles). To the west, U.S. 90 connects Hondo with Uvalde, Del Rio, and eventually to Interstate 10 at Van Horn. In addition, Interstate 10, Interstate 35, Interstate 37, and Interstate 410 all intersect within the service area, and connect to the major cities within Texas.

In terms of ground access services, the Airport has only one rental car company listed on its [www.airnav.com](http://www.airnav.com) website: Enterprise Rent-A-Car. The closest Enterprise site is in Devine, TX - 22 miles to the southeast. This means that arriving air travelers must pre-arrange for a rental car to be dropped at the Airport. There is no "walk up" service. Similarly, there are no taxi services in Hondo. The closest taxi services are in San Antonio. As a business class airport, South Texas Regional is at a disadvantage, relative to other general aviation airports with readily available or on-demand rental cars and cab/taxi services.

### **3.6 Competitive Market Assessment**

As previously mentioned, Figure 3 illustrates the Airport service area including other nearby public-use airports. For South Texas Regional Airport at Hondo, the service area is roughly based on a 45-minute driving distance and the location of alternate airports. Within this service area, only San Antonio International (SAT) offers scheduled airline service. The other general aviation airports located within HDO's service area are:

- Bandera State Airport
- Castroville Municipal Airport
- Devine Municipal Airport
- San Geronimo Airpark Airport
- South Texas Regional Airport at Hondo Airport
- McKinley Field Airport
- Garner Field Airport
- San Antonio International Airport
- Stinson Municipal Airport

These airports make up the competitive mix of aviation facilities and services available to Hondo pilots and general aviation users. Thus, the attraction of users to South Texas Regional Airport must offer convenience and price-competitive facilities and services. Discussed below are the various attributes of these market-area airports and how they may impact the need for facilities and services at Hondo.

## **Facilities**

Table 9 provides a comparison of service area airport facilities. Of the listed airports, six have runways of 5,000 feet or greater, which makes them the best candidates for business jet activity. San Antonio International has the two longest runways in the service area (8,501 feet by 150 feet and 8,502 feet by 150 feet). The South Texas Regional Airport has the longest non-commercial airport runway in the service area with dimensions of 6,002 feet by 100 feet. In addition to this, HDO's airport property, which spans 2,388 acres, is the largest of any airport in the study area. A number of airports in the service area have instrument approach procedures of some type. The only airports in the service area with air traffic control towers are San Antonio International and Stinson Municipal.

## **Based Aircraft**

There are a reported total of 391 aircraft based at the airports within the Hondo service area. The majority of based aircraft (67.5 percent) are single engine aircraft. Jet aircraft make up 18.6 percent of based aircraft, and multi-engine represent the remaining 14 percent in the service area. Of the 73 jet aircraft in the service area, 71 (97.3 percent) are located at San Antonio International. With two based jets, Garner Field Airport is the only general aviation airport in the service area based jets. With a total of 27 aircraft on the field including 25 single-engine, 2 multiengine, and 4 helicopters, HDO is at the mid to lower end of the spectrum with regard to based aircraft.

## **Aviation Services**

Table 10 presents the availability of various aviation services at each of the area airports. Six airports offer flight instruction and some form of aircraft repairs, of these all but HDO offers major repairs. Three airports offer aircraft sales and charter services. Only Castroville offered Aerial Surveying services, and Crop Dusting services were available at McKinley and Garner Field. San Antonio International has the most service offerings in the region, and is the only airport to offer Cargo Handling services. HDO's services include Avionics and Flight Instruction, but without Major Frame and Engine Repair, the airport is slightly behind maintaining comparable services to the other service area general aviation airports.

## **Hangars and Tie-downs**

Monthly tie-down spaces are available at only three of the service area airports contacted, with the other airports either not offering transient tie down storage, or all spaces currently full. Prices for tie-down spaces range from \$0 with fuel purchased to \$500 a month at these various

facilities (see Table 11). San Antonio maintained the most expensive storage rates of all the area airports, but this is to be expected considering the facility offerings.

All airports in the service area have T-hangars on the field; however, there are waiting lists for most airports in the service area. Monthly T-Hangar rates range from \$60 per month at McKinley Field Airport to \$269 at San Antonio International. Monthly rates at some airports depend on age and condition of the T-hangars and can vary widely between airports and even on the same airport. The South Texas Regional Airport has the second lowest pricing on T-Hangars in the service area, starting at \$70 per month. Only the South Texas Regional Airport reported vacancies in conventional hangars, although information was not available for some airports in the service area.

### **Fuel Prices**

It should be noted that all fuel prices change frequently, therefore the following narrative and associated table were compiled on the same day- (December 13, 2012) for the most accurate snapshot. There was no Mogas found at any area airports. All information regarding gas prices was compiled from [www.airnav.com](http://www.airnav.com).

Self-serve Avgas is available at five of the airports within the service area. The highest per gallon price was found at McKinley Field Airport (\$5.80). The lowest self-serve Avgas price was found at Garner Field Airport at \$4.39 per gallon. The average price per gallon for self-serve Avgas was \$5.15. The South Texas Regional Airport's self serve price of \$4.84 per gallon of Avgas is the second lowest within the service area. Full-serve Avgas was available at three airports within the service area, with an average price of \$5.86 per gallon. Garner Field offered the lowest price per gallon (\$4.79), and San Antonio International had the highest price per gallon (\$6.99). Self-serve Jet Fuel is available at four of the service area airports, with an average price of \$5.14 per gallon. The South Texas Regional Airport had the lowest price of Self-serve Jet Fuel at \$4.96 per gallon. Full-serve Jet Fuel is available at four airports in the service area, with an average price of \$5.52 per gallon. The lowest price was found at Garner Field (\$4.79) and the highest price was found at San Antonio International (\$6.89). Overall, The South Texas Regional Airport's fuel prices were priced at the lower end for the airports within the service area.



| Table 9 - Airport Facility Comparison |              |           |       |                          |       |        |      |       |       |             |             |          |       |
|---------------------------------------|--------------|-----------|-------|--------------------------|-------|--------|------|-------|-------|-------------|-------------|----------|-------|
| Service Area Airports                 | Airport Code | Ownership | Acres | Number of Based Aircraft |       |        |      |       |       | Runway      |             | Nav aids | Tower |
|                                       |              |           |       | Jet                      | Multi | Single | Heli | Other | Total | First       | Second      | Highest  |       |
|                                       |              |           |       |                          |       |        |      |       |       | L x W       | L x W       |          |       |
| Bandera Flying L Airport              | TE90         | Private   | 18    | 0                        | 1     | 3      | 0    | 0     | 4     | 3,600 x 75  |             | N/A      | No    |
| Castroville Municipal Airport         | CRS          | Public    | 166   | 0                        | 3     | 42     | 3    | 1     | 45    | 5,004 x 75  | 3,200 x 75  | GPS      | No    |
| Devine Municipal Airport              | 23R          | Public    | 63    | 0                        | 1     | 10     | 0    | 0     | 11    | 3,399 x 60  |             | GPS      | No    |
| South Texas Regional Airport at Hondo | HDO          | Public    | 3,500 | 0                        | 2     | 25     | 4    | 0     | 27    | 6,002 x 100 | 5,545 x 150 | GPS      | No    |
| McKinley Field Airport                | T30          | Private   | 141   | 0                        | 0     | 8      | 1    | 0     | 8     | 5,027 x 60  |             | GPS      | No    |
| Garner Field Airport                  | UVA          | Public    | 356   | 2                        | 2     | 22     | 3    | 4     | 26    | 5,256 x 100 |             | GPS      | No    |
| San Antonio International Airport     | SAT          | Public    | 2,305 | 71                       | 39    | 87     | 9    | 0     | 197   | 8,505 x 150 | 8,502 x 150 | ILS      | Yes   |
| San Geronimo Airpark                  | 8T8          | Private   | 86    | 0                        | 1     | 35     | 2    | 9     | 36    | 3,000 x 40  |             | N/A      | No    |
| Stinson Municipal Airport             | SSF          | Public    | 360   | 0                        | 5     | 32     | 0    | 0     | 37    | 5,000 x 100 | 4,128 x 100 | GPS      | Yes   |
| Totals                                |              |           |       | 73                       | 54    | 264    | 22   | 14    | 391   |             |             |          |       |

Source: Airport Master Record as Published December 2012 ([www.gcr1.com/5010WEB](http://www.gcr1.com/5010WEB) & [www.airnav.com](http://www.airnav.com)).

| Table 10 - Airport Services Comparison       |                          |               |                    |                 |          |                |                  |                               |
|----------------------------------------------|--------------------------|---------------|--------------------|-----------------|----------|----------------|------------------|-------------------------------|
| Service Area Airports                        | Frame Repairs            | Power Repairs | Flight Instruction | Charter Service | Avionics | Aircraft Sales | Aircraft Rentals | Other                         |
| Bandera Flying L Airport                     | No Information Available |               |                    |                 |          |                |                  |                               |
| Castroville Municipal Airport                | Major                    | Major         | Yes                | No              | No       | No             | No               | Aerial Surveying              |
| Devine Municipal Airport                     | Major                    | Major         | Yes                | No              | No       | No             | Yes              |                               |
| <b>South Texas Regional Airport at Hondo</b> | Minor                    | Minor         | Yes                | No              | Yes      | No             | No               |                               |
| McKinley Field Airport                       | None                     | None          | No                 | No              | No       | No             | No               | Crop Dusting                  |
| Garner Field Airport                         | Major                    | Major         | Yes                | Yes             | Yes      | Yes            | Yes              | Crop Dusting, Glider Services |
| San Antonio International Airport            | Major                    | Major         | Yes                | Yes             | Yes      | Yes            | Yes              | Cargo Handling                |
| San Geronimo Airpark                         | No Information Available |               |                    |                 |          |                |                  |                               |
| Stinson Municipal Airport                    | Major                    | Major         | Yes                | Yes             | No       | Yes            | Yes              |                               |

Source: Airport Master Record as Published December 2012 ([www.gcr1.com/5010WEB](http://www.gcr1.com/5010WEB) & [www.skyvector.com](http://www.skyvector.com)).

| <b>Table 11 - Rates and Charges Comparison</b> |                          |              |                             |              |                  |              |                          |                  |                 |                 |                               |
|------------------------------------------------|--------------------------|--------------|-----------------------------|--------------|------------------|--------------|--------------------------|------------------|-----------------|-----------------|-------------------------------|
| <b>General Aviation Airports</b>               | <b>Tie-Down</b>          |              | <b>Conventional Hangars</b> |              | <b>T-Hangars</b> |              | <b>Fuel Price/Gallon</b> |                  |                 |                 | <b>Waiting List (Hangars)</b> |
|                                                | <b>\$/month</b>          | <b>Avail</b> | <b>\$/year</b>              | <b>Avail</b> | <b>\$/ month</b> | <b>Avail</b> | <b>100 LL SS</b>         | <b>100 LL FS</b> | <b>Jet A SS</b> | <b>Jet A FS</b> |                               |
| Bandera Flying L Airport                       | No Information Available |              |                             |              |                  |              | -                        | -                | -               | -               | N/A                           |
| Castroville Municipal Airport                  | No Long Term             | N/A          | \$115-\$172 / month         | None         | \$135            | None         | \$5.05                   | -                | \$4.96          | -               | Yes                           |
| Devine Municipal Airport                       | No Information Available |              |                             |              |                  |              | -                        | -                | -               | -               | N/A                           |
| <b>South Texas Regional Airport at Hondo</b>   | <b>No Long Term</b>      | <b>N/A</b>   | <b>\$160 / month</b>        | <b>2</b>     | <b>\$70</b>      | <b>Yes</b>   | <b>\$4.84</b>            | <b>-</b>         | <b>\$4.95</b>   | <b>\$5.20</b>   | <b>No</b>                     |
| McKinley Field Airport                         | N/N                      | N/A          | N/A                         | N/A          | \$60             | N/A          | \$5.80                   | -                | \$5.65          | -               | N/A                           |
| Garner Field Airport                           | NC w/ Fuel               | Yes          | \$0.35 per sq ft            | N/A          | \$175            | N/A          | \$4.39                   | \$4.79           | -               | \$4.79          | N/A                           |
| San Antonio International Airport              | \$100-\$500              | 125          | \$1-\$2 per sf              | No           | \$193-\$269      | No           | -                        | \$6.99           | -               | \$6.89          | Yes                           |
| San Geronimo Airpark                           | No Information Available |              |                             |              |                  |              | -                        | -                | -               | -               | N/A                           |
| Stinson Municipal Airport                      | \$50                     | 18           | \$0.63 - \$3.11 per sf      | No           | N/A              | N/A          | \$5.69                   | \$5.79           | \$4.99          | \$5.19          | Yes                           |

Source: RA Wiedemann & Associates Inc. Telephone Survey 6-2-11 & 12-05-12 & www.airnav.com

Legend: LL = Low Lead; SS = Self Serve; FS = Full Serve; sf = Square Feet; NC = No Charge; N/A = Not Available

#### 4. BASELINE FINANCIAL AND ECONOMIC OUTLOOK

THIS SECTION IDENTIFIES HISTORICAL REVENUES AND EXPENSES attributable to South Texas Regional Airport and projects those revenues and expenses to the year 2022. This projection only considers a baseline scenario with no revenue enhancement projects included. It does not consider an expansion or change of the Airport's operation beyond those already present. However, in a later section, alternative projections of financial performance will be developed based upon business plan recommendations and marketing pro-formas.

In order to properly frame these financial statements, this section is organized to present the following:

- Historical Revenues and Expenses
- Baseline Forecast of Revenues and Expenses

##### 4.1 Historical Revenues and Expenses

South Texas Regional Airport at Hondo is operated by the City of Hondo as an Airport Enterprise Fund. The City's objective for this fund is that it remain self sustaining- meaning that the revenue generated by the Airport provides enough funding to pay for all current expenditures and other financial requirements related to the Airport. This includes regular costs such as operating expenditures, personnel costs, equipment purchases, and routine facilities maintenance and repair. The future desire is that revenues from the Airport pay any debt service associated with new or expanded facilities. The financial goals for the Airport are to develop a reserve for facility upkeep and to maintain a fund balance reserve equal to or greater than twenty five percent of annual operating expenditures, paying the City's General Fund for administrative support (such as information technology, payroll, purchasing, human resources).

Information concerning historical revenues and expenses for the Airport was provided by the City of Hondo. For purposes of this analysis, the most recent five year data history was used (2008-2012) because it includes the national recession impacts and represents the relevant historical financial performance of the Airport. In addition this data is most applicable for financial forecasting because it gives some indication of recent trends. Table 12 shows the historical revenue and expenses as documented in the revenue and expense spreadsheets provided by the Airport.

Many of the revenue and cost categories represent aggregated totals of several accounting sub-categories. Revenues from Airport operations are derived from the following:

- **Hangar Rental:** This includes commercial, T-hangar, and enclosed hangar rent.
- **Building Rental:** These revenues are derived from non-hangar building rents.
- **Aviation Land Lease:** This includes land leased for aviation related activity.
- **Non-Aviation Land Leases:** This includes land leased for non-aviation related activity.
- **Ground Maintenance:** This category includes runway sweeping and ground maintenance.

- **100LL & Jet A Fuel Sales:** These revenues are derived from the City-operated fuel farm for both Jet A and 100LL Avgas.
- **Miscellaneous Revenues:** This category captures all revenue that is not attributable to the other categories.

Airport Operating Expenses were made up of the following cost items:

- **Personnel Expenses:** This includes salaries and benefits of Airport workers.
- **Phone and Utilities:** These costs are for Telecommunications and Utilities.
- **Maintenance & Repairs:** Services or supplies purchased to operate, repair, and maintain property owned or used by the Airport distributed to Buildings, Grounds and Equipment.
- **100 LL and Jet A:** These are the wholesale costs for 100LL and Jet A fuel.
- **Supplies and Materials:** This includes office/building supplies, postage, and machinery etc.
- **Insurance:** This cost category includes the commercial insurance premiums for the Airport.
- **Professional Services:** These are purchased professional and technical services that can be performed by only persons or firms with specialized skills and knowledge. This category includes legal and auditing fees, along with engineering and consultant costs.
- **Contractual Services:** All other paid services not performed by City employees.
- **Environmental Remediation:** Remediation of environmental sites.

Not included in these operating revenue and expense statements are the annual contributions to the Airport from the FAA, TxDOT, the City, or private sources for capital development. Those contributions are not considered operating revenues by this analysis. Rather, this analysis is geared to identify the actual revenue producing ability of the Airport, along with its actual operating costs. For purposes of the baseline financial forecasts, the ability of the Airport to generate revenues and cover operating costs is the primary concern because surplus operating revenues can be used to pay the local share of capital development or other non-operating costs.

**Table 12 - Historical Revenues and Expenses**

|                                 | FY 2008          | FY 2009          | FY 2010          | FY 2011            | FY 2012            |
|---------------------------------|------------------|------------------|------------------|--------------------|--------------------|
| <b>Operating Revenues:</b>      |                  |                  |                  |                    |                    |
| Hangar Rental                   | \$173,213        | \$159,023        | \$147,875        | \$222,598          | \$185,145          |
| Building Rental                 | \$30,878         | \$26,314         | \$16,135         | \$16,066           | \$16,738           |
| Aviation Land Lease             | \$13,338         | \$15,371         | \$28,381         | \$24,501           | \$27,469           |
| Non-Aviation Land Lease         | \$93,923         | \$92,960         | \$97,914         | \$111,728          | \$94,872           |
| Ground Maintenance              | \$44,240         | \$44,240         | \$37,920         | \$0                | \$0                |
| Avgas 100LL                     | \$260,971        | \$281,846        | \$334,231        | \$505,168          | \$547,964          |
| Jet A                           | \$199,111        | \$149,923        | \$235,116        | \$309,668          | \$574,559          |
| Miscellaneous                   | \$41,019         | \$9,761          | \$48,649         | \$36,521           | \$20,865           |
| <b>Total Operating Revenues</b> | <b>\$856,693</b> | <b>\$779,439</b> | <b>\$946,220</b> | <b>\$1,226,250</b> | <b>\$1,467,612</b> |



| <b>Table 12 - Historical Revenues and Expenses</b> |                  |                  |                  |                    |                    |
|----------------------------------------------------|------------------|------------------|------------------|--------------------|--------------------|
|                                                    | <b>FY 2008</b>   | <b>FY 2009</b>   | <b>FY 2010</b>   | <b>FY 2011</b>     | <b>FY 2012</b>     |
| <b>Operating Expense:</b>                          |                  |                  |                  |                    |                    |
| Personnel Expenses                                 | \$140,855        | \$149,443        | \$197,717        | \$225,680          | \$268,596          |
| Phone & Utilities                                  | \$7,268          | \$12,276         | \$19,810         | \$14,128           | \$16,495           |
| Maintenance & Repairs                              |                  |                  |                  |                    | \$0                |
| Building                                           | \$14,263         | \$31,213         | \$25,823         | \$42,674           | \$12,496           |
| Grounds                                            | \$20,176         | \$13,080         | \$23,147         | \$15,032           | \$5,174            |
| Equipment                                          | \$1,875          | \$2,817          | \$2,490          | \$6,261            | \$11,216           |
| Supplies & Materials                               | \$9,026          | \$17,171         | \$19,313         | \$38,038           | \$34,253           |
| 100 LL                                             | \$175,723        | \$188,111        | \$317,070        | \$379,978          | \$459,370          |
| Jet A                                              | \$184,587        | \$179,603        | \$181,654        | \$279,451          | \$452,758          |
| Insurance                                          | \$6,667          | \$18,168         | \$21,599         | \$16,704           | \$3,773            |
| Professional Fees                                  | \$45,254         | \$13,808         | \$40,353         | \$34,127           | \$45,835           |
| Contractual Services                               | \$83,226         | \$109,664        | \$86,383         | \$92,880           | \$95,307           |
| Environmental Remediation                          | \$112,643        | \$0              | \$0              | \$50,399           | \$12,058           |
| <b>Total Operating Expenses</b>                    | <b>\$801,563</b> | <b>\$735,355</b> | <b>\$935,360</b> | <b>\$1,195,353</b> | <b>\$1,417,331</b> |
|                                                    |                  |                  |                  |                    |                    |
| <b>Net Operating Revenues</b>                      | <b>\$55,130</b>  | <b>\$44,084</b>  | <b>\$10,860</b>  | <b>\$30,898</b>    | <b>\$50,281</b>    |

From the historical financial information, the total operating expenses fluctuated from year-to-year, ranging from a low of \$735,355 in FY 2009 to a high of \$1,417,331 in FY 2012. Operating revenues also fluctuated each year from a low of \$779,439 in FY 2009 to a high of \$1,467,612 in FY 2012.

Fuel revenues and expenses have the largest influence over the financial profitability of the Airport. In FY 2012 fuel income was 76.5 percent of all revenue while fuel expense was 61.9 percent of all expenses. Overall net revenues from fuel (the profit margin) has had an average yearly growth rate of 20.5 percent (Table 13). However, with the departure of the U.S. Aviation Academy flight training school, it is likely that fuel sales - and their net revenues - will decline in the immediate future.

| <b>Table 13 - Fuel Revenues and Expenses</b> |                 |                 |                 |                  |                  |                  |
|----------------------------------------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
|                                              | <b>FY 2008</b>  | <b>FY 2009</b>  | <b>FY 2010</b>  | <b>FY 2011</b>   | <b>FY 2012</b>   | <b>Increase*</b> |
| Fuel Revenue                                 | \$460,082       | \$431,769       | \$569,347       | \$814,836        | \$1,122,523      | <b>25.0%</b>     |
| Fuel Expense                                 | \$360,310       | \$367,714       | \$498,725       | \$659,429        | \$912,128        | <b>26.1%</b>     |
| <b>Fuel Net Revenue</b>                      | <b>\$99,772</b> | <b>\$64,055</b> | <b>\$70,622</b> | <b>\$155,407</b> | <b>\$210,395</b> | <b>20.5%</b>     |
| Fuel Margin                                  | 21.7%           | 14.8%           | 12.4%           | 19.1%            | 18.7%            |                  |

\* Average yearly growth rate

Table 14 presents a summary and comparison of operating revenues and costs. As shown, there was a decrease in the operating gain recorded from 2008-2010. In 2011 and 2012 the operating gain started to increase primarily due to fuel revenues from the flight school.

| Table 14 – Comparison of Operating Revenues & Expenses |             |             |                 |
|--------------------------------------------------------|-------------|-------------|-----------------|
| Year                                                   | Revenues    | Expenses    | Net Gain/(Loss) |
| FY 2008                                                | \$856,693   | \$801,563   | \$55,130        |
| FY 2009                                                | \$779,439   | \$735,355   | \$44,084        |
| FY 2010                                                | \$946,220   | \$935,360   | \$10,860        |
| FY 2011                                                | \$1,226,250 | \$1,195,353 | \$30,898        |
| FY 2012                                                | \$1,467,612 | \$1,417,331 | \$50,281        |

It is against this historical backdrop that the baseline forecast of revenues for South Texas Regional Airport at Hondo is presented. It should be noted that most public-use general aviation airports in the United States do not cover expenses with revenues and must be subsidized by their owners/sponsors. As such, the operating surplus that has been historically recorded for South Texas Regional Airport is an exception to the typical case.

#### 4.2 Baseline Forecast of Revenues and Expenses

The Baseline forecast presents a status quo look at revenues and expenses, influenced primarily by historical activity. It does not consider all of the potential changes at the Airport that might occur through the implementation of this Business Plan, the Airport's Vision Plan, or in the City of Hondo's economy that might change the historical trend. To determine the historical trend, the percent change from FY 2008 to the FY 2012 was examined to find the average percent change in revenues and expenses. Thus, any major fluctuation during any one year did not unduly affect the overall trend. Also inputting the Baseline forecasts was the City budget information for the most recent years available. Assumptions used in developing the Baseline Forecast included the following:

- **Rate of Inflation/Consumer Price Index (CPI):** Historically, the rate of inflation/CPI has been used to escalate prices when making forecasts of revenues and expenses. For this Baseline Forecast, a rate of 2.5 percent was used to forecast the following revenue categories: Leases, Fuel Sales, and Miscellaneous revenue. On the expenses side, the CPI rate was used to forecast Professional Services and Supplies & Materials.
- **2013 Airport Budget Input:** The Baseline Forecast utilizes the 2013 Airport Budget as input for a number of expense categories including: Personnel Expenses, Building Maintenance and Repairs, Supplies & Materials. These were then projected to increase by the CPI throughout the planning period. Grounds and Equipment costs were did not use the budget input because of their recent historical performance. In both cases, they were increased over the budgeted amount.

- **Lease Revenues:** The Baseline Forecast utilized existing rental rates for tenant leases. These rents then were increased by CPI, as provided in the lease agreements. This projection did not assume the filling of vacant hangars, and as such, serves as a true baseline or benchmark against which the revenue enhancement actions can be measured.
- **Loss of Flight School:** U.S. Aviation relocated its flight school from Hondo to Sherman, TX (North Texas Regional Airport). This not only leaves commercial hangar # 2 vacant with a loss of rent (\$5,527 per month) but also loses fuel sales from the aircraft used by 40 to 50 student pilots.
- **Fuel Sales:** With the loss of U.S. Aviation flight school the airport fuel sales revenue is expected to decrease. A fuel margin of 23 percent was kept constant throughout the forecast, even though the number of gallons predicted to be sold decreased from what would have been sold had the flight school not moved. It should be noted that FY 2013 actual fuel sales and cost results were used in the Baseline forecasts.
- **Insurance Costs:** Insurance costs were projected to increase by 5 percent per year to reflect historical increases in this expense.
- **Utilities:** A three year average of Utilities Expenses was used to calculate the 2013 total due to the fluctuation of these expenses year to year. These expenses were then projected to increase by the CPI throughout the planning period.

Drawing on these assumptions, and taking a conservative approach to Airport financial performance, a reasonable Baseline forecast of revenues and expenses was developed through the year 2022. As shown in Table 15, the loss of a major tenant would cause shortfalls in forecast net operating revenues. Although the shortfalls generally decrease, this projection does not consider all of the revenue enhancement options available to the City to offset these potential shortfalls.

**Table 15 - Baseline Forecast of Operating Revenues and Expenses**

| <b>Operating Revenues:</b>           | <b>FY 2013</b>     | <b>FY 2014</b>    | <b>FY 2015</b>    | <b>FY 2016</b>    | <b>FY 2017</b>    | <b>FY 2018</b>   | <b>FY 2019</b>   | <b>FY 2020</b>     | <b>FY 2021</b>     | <b>FY 2022</b>     |
|--------------------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|--------------------|--------------------|--------------------|
| Hangar Rental                        | \$131,172          | \$196,334         | \$211,416         | \$214,873         | \$218,417         | \$222,049        | \$233,780        | \$239,198          | \$243,109          | \$247,119          |
| Building Rental                      | \$17,157           | \$17,586          | \$18,025          | \$18,476          | \$18,938          | \$19,411         | \$19,896         | \$20,394           | \$20,904           | \$21,426           |
| Aviation Land Lease                  | \$28,156           | \$28,860          | \$29,581          | \$30,321          | \$31,079          | \$31,856         | \$32,652         | \$33,468           | \$34,305           | \$35,163           |
| Non-Aviation Land Lease              | \$97,244           | \$99,675          | \$102,167         | \$104,721         | \$107,339         | \$110,023        | \$112,773        | \$115,593          | \$118,482          | \$121,444          |
| Avgas 100LL                          | \$202,769          | \$207,838         | \$213,034         | \$218,360         | \$223,819         | \$229,415        | \$235,150        | \$241,029          | \$247,054          | \$253,231          |
| Jet A                                | \$288,810          | \$296,030         | \$303,431         | \$311,017         | \$318,792         | \$326,762        | \$334,931        | \$343,304          | \$351,887          | \$360,684          |
| Miscellaneous                        | \$14,800           | \$15,170          | \$15,549          | \$15,938          | \$16,336          | \$16,745         | \$17,163         | \$17,593           | \$18,032           | \$18,483           |
| <b>Total Operating Revenues</b>      | <b>\$780,107</b>   | <b>\$861,492</b>  | <b>\$893,204</b>  | <b>\$913,706</b>  | <b>\$934,720</b>  | <b>\$956,260</b> | <b>\$986,346</b> | <b>\$1,010,578</b> | <b>\$1,033,774</b> | <b>\$1,057,550</b> |
|                                      |                    |                   |                   |                   |                   |                  |                  |                    |                    |                    |
| <b>Operating Expense:</b>            | <b>FY 2013</b>     | <b>FY 2014</b>    | <b>FY 2015</b>    | <b>FY 2016</b>    | <b>FY 2017</b>    | <b>FY 2018</b>   | <b>FY 2019</b>   | <b>FY 2020</b>     | <b>FY 2021</b>     | <b>FY 2022</b>     |
| Personnel Expenses                   | \$206,857          | \$212,028         | \$217,329         | \$222,762         | \$228,331         | \$234,040        | \$239,891        | \$245,888          | \$252,035          | \$258,336          |
| Utilities                            | \$16,811           | \$17,231          | \$17,662          | \$18,103          | \$18,556          | \$19,020         | \$19,495         | \$19,983           | \$20,482           | \$20,994           |
| Maintenance & Repairs                |                    |                   |                   |                   |                   |                  |                  |                    |                    |                    |
| Building                             | \$19,700           | \$20,193          | \$20,697          | \$21,215          | \$21,745          | \$22,289         | \$22,846         | \$23,417           | \$24,003           | \$24,603           |
| Grounds                              | \$10,103           | \$10,356          | \$10,615          | \$10,880          | \$11,152          | \$11,431         | \$11,717         | \$12,010           | \$12,310           | \$12,618           |
| Equipment                            | \$8,739            | \$8,957           | \$9,181           | \$9,411           | \$9,646           | \$9,887          | \$10,134         | \$10,388           | \$10,647           | \$10,913           |
| Supplies & Materials                 | \$36,277           | \$37,184          | \$38,114          | \$39,067          | \$40,043          | \$41,045         | \$42,071         | \$43,122           | \$44,200           | \$45,305           |
| 100 LL                               | \$164,680          | \$160,035         | \$164,036         | \$168,137         | \$172,341         | \$176,649        | \$181,065        | \$185,592          | \$190,232          | \$194,988          |
| Jet A                                | \$211,774          | \$227,943         | \$233,642         | \$239,483         | \$245,470         | \$251,607        | \$257,897        | \$264,344          | \$270,953          | \$277,727          |
| Insurance                            | \$17,540           | \$18,417          | \$19,338          | \$20,304          | \$21,320          | \$22,386         | \$23,505         | \$24,680           | \$25,914           | \$27,210           |
| Professional Fees                    | \$46,981           | \$48,156          | \$49,359          | \$50,593          | \$51,858          | \$53,155         | \$54,484         | \$55,846           | \$57,242           | \$58,673           |
| Contractual Services                 | \$91,523           | \$93,811          | \$96,157          | \$98,561          | \$101,025         | \$103,550        | \$106,139        | \$108,793          | \$111,512          | \$114,300          |
| Environmental Remediation            | \$50,000           | \$50,000          | \$50,000          | \$50,000          | \$50,000          | \$0              | \$0              | \$0                | \$0                | \$0                |
| <b>Total Operating Expenses</b>      | <b>\$880,985</b>   | <b>\$904,312</b>  | <b>\$926,130</b>  | <b>\$948,517</b>  | <b>\$971,487</b>  | <b>\$945,057</b> | <b>\$969,243</b> | <b>\$994,062</b>   | <b>\$1,019,531</b> | <b>\$1,045,667</b> |
| <b>Net Operating Revenues (Loss)</b> | <b>(\$100,878)</b> | <b>(\$42,819)</b> | <b>(\$32,926)</b> | <b>(\$34,811)</b> | <b>(\$36,767)</b> | <b>\$11,203</b>  | <b>\$17,103</b>  | <b>\$16,516</b>    | <b>\$14,243</b>    | <b>\$11,883</b>    |

## 4.2 Non-Operating Expenses and Revenues

In order to get a complete picture of the Airport's financial position, this section presents a discussion of the non-operating expenses and revenues associated with South Texas Regional Airport at Hondo.

### Non-Operating Expenses

The Airport's non-operating expenses originate primarily from its debt service and capital improvement costs. These items include:

- **Capital Improvements:** The local share of capital improvements which would be attributable to the City of Hondo. This share is likely to be 10 percent or more of the total cost of the improvement, assuming a TxDOT grant basis of 90 percent.
- **Debt Service:** includes interest paid to the 2007 Certificates of Obligation Fund - This fund accounts for the usage of the bond proceeds which were allocated to the general fund.
  - **Certificates of Obligation, Series 2007:** On October 25, 2007, the City issued \$3,850,000 of Certificates of Obligation, Series 2007, for the expansion and improvements to City Hall, drainage improvements, utility system improvements and park improvements, with issuance costs of \$70,000. The proceeds were allocated 27 percent to interest and sinking (Governmental Activities), 23 percent to the Electric Fund, 22 percent to the Water and Sewer Fund, 7 percent to the Airport Fund and 21 percent to Economic Development. Principal is due annually on February 1. Interest is due semi-annually and the interest rates range from 3.74 to 4.77 percent. Principal and interest are also allocated based on the percentages above. The bond issuance costs are amortized over the life of the bonds and reported as interest expense based on the same allocation. The final maturity date of the bonds is February 1, 2027.
  - **TxDOT Loan:** On June 23, 2003, the City received a loan of \$242,750 from the Texas Department of Transportation for the construction of aviation hangars at the Airport. The loan is recorded in the Municipal Airport Fund. Principal and interest are due annually on May 15. The interest rate is 3 percent and the final maturity date is May 15, 2015.

### Non-Operating Revenues

- **Sale of Land:** Proceeds from Airport land sold must be used for Airport funding or financing. The City has used this policy in the past and will do so when selling non-aviation property in the future.
- **Grants:** Typically, grants (as a non-operating revenue) are offset by capital improvement expenses (non-operating expenses) and thus do not impact the net revenue picture. Grant



shortfalls would impact the Airport's financial position if the City was still obligated to undertake an improvement without the grant.

- **Type B Corporation Funding:** There has been a percentage of sales tax specifically allotted for improvement projects at the Airport. In addition to this, support from TxDOT in the form of grant assistance has been used to facilitate improvements at the Airport.

### Summary and Net Revenue Forecast

When the baseline costs are compared with the baseline forecast of revenues, the net operating costs for the Airport can be predicted as shown in Table 16. Debt Service expense from non-operating expenses were included to show how the Airport is positioned to pay its operating expenses and current non-operating obligations.

| <b>Table 16 - Baseline Net Deficit</b> |                    |                    |                        |             |
|----------------------------------------|--------------------|--------------------|------------------------|-------------|
| Fiscal Year                            | Operating Revenues | Operating Expenses | Non-Operating Expenses | Net Deficit |
| 2013                                   | \$780,107          | \$880,985          | \$46,569               | (\$147,447) |
| 2014                                   | \$861,492          | \$904,312          | \$46,569               | (\$89,388)  |
| 2015                                   | \$893,204          | \$926,130          | \$46,569               | (\$79,495)  |
| 2016                                   | \$913,706          | \$948,517          | \$18,111               | (\$52,922)  |
| 2017                                   | \$934,720          | \$971,487          | \$18,111               | (\$54,878)  |
| 2018                                   | \$956,260          | \$945,057          | \$18,111               | (\$6,908)   |
| 2019                                   | \$986,346          | \$969,243          | \$18,111               | (\$1,008)   |
| 2020                                   | \$1,010,578        | \$994,062          | \$18,111               | (\$1,595)   |
| 2021                                   | \$1,033,774        | \$1,019,531        | \$18,111               | (\$3,868)   |
| 2022                                   | \$1,057,550        | \$1,045,667        | \$18,111               | (\$6,228)   |

The results of this Baseline Forecast indicate that under the status quo scenario, where no new revenue-generating strategies are undertaken and no negative economic impacts are considered, South Texas Regional Airport at Hondo will require subsidy from the city to cover near term expenses. In the next section of this Business Plan, a set of revenue enhancement initiatives will be examined that are designed to improve the financial performance for the Airport.

## 5. BUSINESS PLAN ALTERNATIVES

THIS SECTION OUTLINES VARIOUS ALTERNATIVES THAT ADDRESS specific issues and needs of South Texas Regional Airport (HDO) that may be implemented to ultimately increase financial performance for the Airport. These alternatives are organized as follows:

- Application of SWOT Findings
- Revenue Enhancement
- Cost Containment Strategies
- Impact of Revenue Enhancement Strategies on Potential Demand

### 5.1 Application of SWOT Findings

The SWOT Analysis Workshop, conducted in October, 2012, identified a number of area-wide factors supporting growth and development of the Airport, as well as the obstacles to Airport performance and goal attainment. In considering business planning alternatives, the information contained in the SWOT findings are influential in constructing options for growing the Airport activity and financial production. This subsection was organized to first examine the factors supporting growth and development, followed by the potential obstacles that will have to be overcome.

#### Positive Growth Factors

The strengths of the Airport, as documented in the SWOT, provide a basis for optimistic growth projections. These factors are descriptive of the Airport asset and why it may be a desirable location for a business or a based aircraft tenant. Without repeating all that was written about the Airport's Strengths and Opportunities, the following summary focuses these factors toward the generation of business planning strategies:

- **Geographical Location:** The Airport is 26 miles from San Antonio, 145 miles from the Mexican border, and 165 miles from the Gulf Coast. The Airport is poised to serve users operating within the business centers of San Antonio. The Airport's convenient proximity to San Antonio allows for short drive times for business users, but also maintains enough distance to enjoy open airspace less restricted than the Class C airspace environment associated with San Antonio International.
- **Economic Infrastructure:** With rail and truck routes currently in place, the advantages of intermodal connectivity to both truck and rail supply lines should provide the South Texas Regional Airport with a competitive advantage to attract a wider range of businesses than other airports that do not have these connections.
- **Airport Expandability:** The South Texas Regional Airport is large and has room to grow. The Airport is located on 2,383 acres and is not constrained by surrounding development or roadways. The Airport has ample space for aviation-related development such as hangars and apron area. In addition, the Vision Plan for the Airport lays out an orderly

expansion plan that incorporates non-aviation land development and multimodal connections.

- **Recent Improvement Projects:** In recent years there have been several runway and taxiway pavement projects, the adding of fuel services, and the construction of a new terminal building. These improvements have positioned the South Texas Regional Airport to accommodate growth and the potential to function as an economic engine for the community.
- **Political Support:** There has been strong political support for the growth and development of the Airport from the local government. Specifically, there has been a portion of sales tax allotted for improvement projects at the Airport. In addition to this, support from TxDOT in the form of grant assistance has been used to facilitate improvements at the Airport.
- **Tax Structures and Incentives:** The City of Hondo can use a variety of favorable tax structures and incentives to attract businesses to locate at the Airport. These include the following:
  - Economic Development Incentives such as Grants and Loans via Type B Corporation Funding
  - Tax Increment Financing/Reinvestment Zone Designation
  - Freeport Property Tax Exemption
  - Industrial Development Bond Financing
  - State-sponsored Programs
  - Tax Abatements

These incentives include tax abatement programs, electric utility cost reductions, infrastructure financing, grants, reduced educational costs, and other benefits for growing companies.

- **Energy Exploration:** The potential of oil and gas exploration moving toward and into Hondo is a positive growth factor for Medina County. The Airport is well positioned to provide services to oil companies and the resulting growing labor force.

### **Obstacles to Airport Performance and Goal Attainment**

In addition to factors that support growth and development of South Texas Regional Airport, there are a number of factors that present challenges to such growth. Issues that were identified during the SWOT that may present obstacles to growth include the following:

- **Aging Infrastructure:** There have been no improvements to the antiquated perimeter infrastructure since it was first put in place while the Airport was a military airbase. The aging lines for water, sewer, gas, electric, and the roadways will all require upgrades in the near future and will drain scarce financial resources of the City. The cost of upkeep could prevent some funding of new facilities to attract businesses to the Airport.

- **Lack of Corporate Amenities:** In order to attract business operations, the services offered by the Airport will need to be improved. Amenities that were identified by the Workshop participants that need to be added both on and off the Airport include the following:
  - Additional Pilot Courtesy Cars
  - Ramp Services
  - Rental Cars
  - Taxi Services
  - Lodging
  - Restaurant

Amenities like a restaurant, lodging, and taxi services cannot be provided by the Airport directly, but instead require outside sources of development.

- **Land Release:** The failure to release and develop land surrounding the South Texas Regional Airport could be seen as a potential obstacle to Airport growth. Many businesses cannot wait for land to become available for development, particularly when there is an abundance of land ready for their immediate use at other locations. Many communities realize this and have industrial sites that have utility lines and expedited permitting processes already in place.
- **Needed Ground Access Improvements:** Improvements are needed for ground transportation at the Airport. Currently, the signage directing visitors to the terminal building is confusing, due in part to the lack of a single dedicated route for ground transportation access.
- **FBO Limitations:** Without an FBO located at the Airport, there are no aircraft maintenance options available for users requiring aircraft repairs. In addition, services such as air taxi, flight training, and aircraft rental are not available. These limited service options represent a limitation when attracting new aviation activity to the Airport.
- **Competition with Other San Antonio Area Airports:** South Texas Regional Airport must compete with other airports in the San Antonio region for aviation traffic. In particular, Port San Antonio (former Kelly Air Force Base) seeks to serve potential MROs, air cargo carriers, and various aerospace companies and would compete for some of the same clients that would be marketed for South Texas Regional. Similarly, most corporate customers utilizing San Antonio International Airport (SAT) operate on the north side of San Antonio. If any of these customers considered operating out of Hondo, the 40 minute drive time into San Antonio may be considered an obstacle to their recruitment.

In addition to the inherent obstacles to growth at South Texas Regional Airport, there are macroeconomic issues and non-aviation infrastructure concerns that may limit future growth. These factors include:

- **Need for Housing:** As Hondo is poised for business growth, there is a need for

affordable, quality housing for a growing workforce. The current supply of housing is insufficient for community needs and the support of local economic development initiatives.

- **National Economy:** As in any aviation-related activity, the national economy plays a vital role. General aviation is more susceptible to downturns in the economy than most industries, in that it is the first to be cut during a recession and the last to be restored when the recession is over.

Given these issues and the challenges faced by the Airport, a strategic set of revenue enhancement options were developed for further analysis. These options considered the Opportunities portion of the SWOT analysis as well as the constraints that may surface because of the other factors discussed with Workshop participants.

## **5.2 Revenue Enhancement**

The discussion of positive growth factors and obstacles to growth helps to frame strategies for increasing aviation activity and financial production at South Texas Regional Airport. Thus, this section focuses on revenue enhancement initiatives and suggested strategies that will increase aviation activity and overall revenues at the Airport. Some of these strategies are already contemplated by the City of Hondo, while others are new concepts for the Airport:

- **Attract Corporate Aviation Activity:** One of the most immediate ways to increase and sustain Airport revenues is to attract more corporate aviation activity – including transient operations and based corporate tenants. Larger jet aircraft require larger hangars, often with office space for flight departments, and correspondingly higher rental revenues for the Airport. HDO has one based jet aircraft. Its nearest competitor within the service area is Uvalde's Garner Field with two jets. San Antonio International (SAT) has 71 jets. The Recommended Plan will suggest methods of identifying and marketing these potential clients.
- **Attract Military Use:** The Air Force and Navy continue to maintain a presence in the area and manage most operations out of Randolph Air Force Base in San Antonio. For HDO, there is an opportunity to provide the military potential support facilities in the form of training or ground storage space. Currently, negotiations are underway which involve potentially renting out areas for military maneuvers on a periodic basis. This activity could increase revenues through the rental fees or the possible sale of fuel to military aircraft.
- **Hangar Rentals:** Another method of improving revenues is to rent hangar space to Airport tenants. As mentioned, the military may be one potential client for vacant hangar space on the Airport. With the vacancy of the former U.S. Aviation hangar, there is approximately 14,300 square feet of aircraft storage space with 17,600 square feet of additional office/classroom space on two floors. A key to attracting and maintaining based aircraft is the ability to “house” them. In this regard, HDO is not limited in its ability to immediately attract corporate tenants. The fact that other area airports report no

vacancies in hangar space and some have waiting lists suggests that reasonably priced new hangar space can be marketed. It should also be noted that the Airport has filled all three of its existing seven-unit T-hangars (21 total units). There are another three open T-shades that can be enclosed and rented. Currently, five aircraft are based under these "airplane-ports" on the north end of the Airport. The City enclosed one of these this year, leaving 14 open units. If all of these could be rented, additional revenues would be generated. From a capital investment standpoint, only minor investment in hangar siding is needed to create additional T-hangar revenue. No capital investment is needed for the former U.S. Aviation Academy hangar. This permits the Airport to increase revenues by simply filling vacancies - one of the least costly methods of bolstering income.

- **Flight Training:** The Airport has been used as a flight training base by U.S. Aviation Academy to train foreign pilots. The infrastructure for that activity is still in place for future flight training possibilities. In this regard, South Texas Regional Airport is an ideal location for flight training because of its relatively low activity airspace and multiple runway configuration. Flight instructors can use the various runway orientations to train pilots in the skill of crosswind landings and takeoffs. It is believed that the former U.S. Aviation Academy hangar would serve adequately as the base of operations for a new flight school at the Airport. In addition, there are two runway supervisory units available for use in flight training.
- **Aviation-Related Businesses:** Another key to the growth of overall revenues is the presence of specialty engine repair, aircraft manufacturing, or other similar types of operations. The Airport has benefited from the presence of Corrigan Air Center, a corporate aircraft completion center that specializes in aircraft painting, aircraft interior completions, and avionics services. Helping Corrigan to expand their operation at the Airport, or finding complementary Maintenance/Repair/Overhaul companies to locate at South Texas Regional could result in an MRO hub that could provide "one-stop shopping" for aircraft repair and completion.
  - **Corrigan Expansion:** Corrigan Air Center would consider it an improvement to their operations to fill in the area between their two large hangars with a connecting structure/work area, and moving their paint and upholstery operations from the older 60' x 200' hangar in the rear northeast corner of the ramp area. This would permit them to exercise greater managerial oversight, save in towing aircraft between hangars, and reduce energy costs by allowing them to avoid having to open hangar doors as frequently. The space between the two larger Corrigan hangars is approximately 50' x 100' and is believed to be adequate for current and future operations.
- **Support Businesses:** General aviation airports that desire to attract corporate aviation have support services that include all-weather operational capabilities (precision instrument approaches), ready access to business centers (car rental or courtesy car), business meeting locations on the Airport, along with food/catering services, professional aviation services, and aesthetics. The SWOT identified opportunities regarding support businesses around the Airport. In the past, a restaurant located at the Airport proved to be



a lucrative business that attracted both local and itinerant patrons. Unfortunately, a fire destroyed the business and it was not rebuilt. Because there is currently no restaurant at the Airport, this represents an opportunity that could be beneficial to the Airport and corporate aviation that desires catering. Having some form of lodging available to support the Airport could also be seen as an opportunity. In addition to this, there have been discussions about locating an aviation museum at the Airport to reflect the rich history of the area.

- **Airport Branding:** Branding is the process of developing a unique identity for a product or service in a given market. In this regard, the development of a unique selling point and identity in the market for South Texas Regional Airport can be beneficial to the future growth of the Airport. Such a coordinated marketing effort would permit the City to control the consistency of the message regarding all future physical improvements, marketing, and economic development in the vicinity of the Airport.

Currently, the Airport brand is in the process of being developed. In 2012, the name of the Airport was changed from Hondo Municipal Airport to South Texas Regional Airport. There has been great success to feature the Airport as a training facility for pilots and a location for aviation business expansion. In addition, the co-location of an intermodal industrial park has linked business with the Airport with the goal of reaching a critical mass of services and facilities. Unfortunately, the departure of U.S. Aviation Academy has hurt the aviation activity at the Airport and has temporarily changed the brand. It is important for the City to take control of that branding process and manage the image to potential customers and the general public. The brand that is developed as a part of this Business Plan can serve to attract targeted aviation and business sectors in the San Antonio region. From a branding standpoint, there is still much to be accomplished including: a new logo, an upgraded website, improved signage at the Airport entranceway, and a marketing campaign including direct mail, printed materials, and video/multimedia.

Discussions with the City leadership indicate that the City itself desires rebranding. That effort will subsume any efforts to rebrand the Airport. Thus, the larger work will be to brand the City and then ensure that the Airport brand is either the same or complementary to the City's new brand. This Business Plan can assist in the larger City branding effort by identifying the essential brand items for the Airport as the decisions are made on a final branding direction.

- **College/University Partnership:** In 2011 the South Texas Regional Training Center was opened on South Texas Regional Airport to serve the vocational and academic individual needs of Hondo, Medina County and the surrounding area. The facility is operated under an Interlocal Agreement between the City of Hondo, Medina County, and Southwest Texas Junior College in Uvalde. The City would like to include Alamo Colleges in San Antonio and possibly Texas State Technical College in Harlingen as potential resources for the development of expanded course offerings to include aircraft mechanic training and possibly airport management courses. Southwest Texas Junior College provides mostly academic courses and the added vocational training in aviation could be provided by these adjunct institutions.

- **Non-Aviation Revenue Enhancement Options:** Because of the large size and infrastructure of South Texas Regional Airport, only a portion of the existing Airport is needed for aviation purposes. The existing Airport has 2,383 acres but needs only about 1,083 acres to fulfill any future aviation demand. As a result, a proposal is being considered by FAA that would release 1,300 acres of land from obligations for Airport use. That release of property is important if the City is to develop the non-aviation portions of Airport property to their highest and best use. Revenue enhancement options at the Airport that do not rely upon aviation include the following:
  - **Expansion of Hondo Railway:** The Hondo Railway has provided revenues for the Airport and jobs for the community. The continued expansion of the Railway and its important transportation work for the agriculture and energy sectors in south Texas is vital to a growing economy in Hondo. The Business Plan will examine the benefits the Airport associated with the growth of the Hondo Railway.
  - **Energy Exploration Leases:** Even if non-aviation property is released and sold, the City can retain the mineral rights of released property. One method of receiving income is to lease property to energy companies for the exploration and production of oil and gas. Hondo sits at the northern edge of the Eagle Ford Shale play and the deeper Pearsall Shale play. As such, the area may become a location for drilling and production of oil or gas wells. Since 2005, there have been 411 drilling permits approved in Medina County. In 2012 alone, 159 drilling permits were approved for 12 different operators. The 2,383 acres of Airport property is ideal for energy company leasing and potential production. Denton Municipal Airport has proven the value of on-airport drilling through the significant capital improvement funding of their airport projects via oil royalties and lease revenues.
  - **Water Rights:** Retention of water rights by the City could create long term lease revenues to the Airport in support of its operation. Non-developed farmland in Texas has rights to aquifer water that runs under the property. Without irrigation, most crops would not survive the hot, dry Texas summers. Currently, the land has been under a three year drought. Each acre of land is allotted two acre-feet of water, which is equal to 651,702 gallons. A regulation Olympic-sized swimming pool holds about two acre-feet. The value of water rights is currently estimated to range between \$3,000 and \$5,000/acre foot. If the Airport kept its water rights from released land, the City could buy or lease them, thereby helping to support the financial future of the Airport.
  - **Other Non-Aviation Development:** The Vision Plan for the Airport features a number of non-aviation land uses and development projects. These other uses include warehouse/manufacturing, office/retail, recreation/golf/parks, civic center/governmental, and agricultural. The agricultural use is already in place, with farm leases for 1,150.5 acres rented. That property does not have to be sold to produce revenue. However, the development of other land uses would likely require the sale of the property. If any capital development is required, private interests will

not put money into leased property when there is so much land available for sale. The Business Plan will examine a recommended path for non-aviation land development at the Airport.

- **Rates and Charges Adjustments:** One method to potentially increase revenues is to examine rates and charges at the Airport and adjust those to be competitive with the regional market prices. For South Texas Regional, the lease rates may be underpriced and could over a period of years be increased to reflect market values. The schedule of fees will be examined to see which ones are impacted by the City and which ones can be changed relatively quickly. Those that are City controlled can be changed as needed to increase competitiveness or improve revenues. Differing pricing strategies will have a varying influence on overall revenues to the Airport.
- **Possible Foreign Trade Zone (FTZ):** Although a potential long shot, the true intermodal connections at the Airport lend credibility to the concept of an FTZ. The existing intermodal transportation infrastructure via truck, rail, and air could easily support an FTZ. In addition, the Airport has the land to support virtually any level of industrial development associated with an FTZ.
- **Air Cargo Activity:** While air cargo activity will not be turned away at South Texas Regional, research on competitive market position indicates that Port San Antonio's Kelly Field has the overwhelming advantage of serving the air cargo hub needs in the San Antonio metro area. With 11,500 feet of runway length, Port San Antonio is seeking national and international cargo carriers to fill its logistical hub at the former Kelly Air Force Base. Competitive advantages include a runway length that is almost twice the length of HDO, proximity to the City of San Antonio (which reduces ground delivery time), and a complete logistics centered facility and service focus. South Texas Regional Airport may have a long term possibility to secure specialty air cargo and that option will be preserved in the Business Plan. However, any short term success in competing against Port San Antonio may be difficult.

### 5.3 Cost Containment Strategies

Cost containment strategies offer a means to improve net revenues without generating new revenue sources. At most general aviation airports, the highest expenditures are for labor and capital development. While capital expenditures are required to maintain and improve infrastructure, there is usually some leeway in handling labor costs. At some airports, there has been a successful use of FBO's as the *de facto* management for the sponsor. Most of these cases occur at low activity airports. In some instances, the fuel concession has been granted to an FBO in order to relieve the Airport of having to hire line service employees. The Business Plan will present the financial aspects of using contract or entrepreneurial labor to serve various functions at the Airport. It should be noted that even if the analysis shows a financial benefit to using third party operators, there may be overriding issues that would require continued City involvement or control of the function being considered.

Other cost containment strategies may be identified during the development of pro formas for Airport operation and maintenance. If that occurs, these strategies will be discussed in the Recommended Plan.

#### 5.4 Impact of Revenue Enhancement Strategies on Potential Demand

The first step in determining the impacts of the revenue enhancement strategies is to predict the change in aviation demand that would occur if each strategy were implemented. Table 17 presents a listing of the potential demand changes along with the assumptions used in estimating demand changes. As shown, if all activity-generating strategies are undertaken, aviation demand could be anticipated to grow by 53 based aircraft and 107 percent of current aircraft operations by the year 2022. Much of this demand would rely upon the reestablishment of a flight school at the Airport. However, aviation demand is only one component of the overall growth strategy for the Airport. There are a number of activities that are anticipated to increase financial production at the Airport that do not involve increased aviation demand.

| <b>Table 17 - Impact of Revenue Enhancement Strategies on Potential Demand</b> |                                                                                                                                                                  |                |             |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------|
| Strategy                                                                       | Assumptions                                                                                                                                                      | Based Aircraft | Activity %  |
| Current Activity (2012)                                                        |                                                                                                                                                                  | 41             | N/A         |
| Attraction of Corporate Aviation                                               | Market aircraft and tenants in the greater San Antonio market.                                                                                                   | 3              | 5%          |
| Military Use                                                                   | Potential training and storage activity.                                                                                                                         | 0              | 1%          |
| Hangar Rentals                                                                 | Market vacant hangars that are ready for new tenants. Small aircraft are assumed.                                                                                | 30             | 20%         |
| Flight Training                                                                | Use large hangar to house flight training operation similar to U.S. Aviation Academy.                                                                            | 20             | 80%         |
| Aviation-Related Businesses                                                    | These specialized aviation service operators (SASO) could locate on the airport and add to MRO capability.                                                       | 0              | 1%          |
| Support Businesses                                                             | These businesses will indirectly aid in the attraction of corporate aircraft and hangar rentals.                                                                 | 0              | 0%          |
| Airport Branding                                                               | This activity will aid in the attraction of new tenants to the Airport and City.                                                                                 | 0              | 0%          |
| College/University Partnership                                                 | This program may develop into an aircraft mechanic training opportunity. Will feed on-airport aircraft maintenance operations.                                   | 0              | 0%          |
| Non-Aviation Revenue Options                                                   | These options include energy leases, water rights, and other non-aviation land uses. They will produce revenue but not necessarily add to the aviation activity. | 0              | 0%          |
| Air Cargo Activity                                                             | This may be a long-term activity. No revenue forecasts are based on air cargo occurring in the near term.                                                        | 0              | 0%          |
| Rates and Charges                                                              | Adjusting rates and charges may increase revenues but not impact aviation activity.                                                                              | 0              | 0%          |
| Additional Growth from Plan                                                    |                                                                                                                                                                  | 53             | 107%        |
| <b>Total Activity - Year 2022</b>                                              |                                                                                                                                                                  | <b>94</b>      | <b>207%</b> |

Some of the strategies listed in Table 17 work together and cannot be adequately separated, such as the effects of branding versus other marketing efforts for the attraction of corporate aviation or more hangar rentals. For this reason, some categories were cross-referenced in the demand estimation process. In addition, there are a number of activities that may impact revenues, but will not impact overall aviation activity levels. This would include strategies such as Non-aviation Property Development, Rates and Charges adjustments, and any new Support Businesses described in this Plan.

## 6. RECOMMENDED PLAN

THE RECOMMENDED BUSINESS PLAN FOR SOUTH TEXAS Regional Airport focuses on methods that the City of Hondo can use to maximize future growth opportunities for the Airport. As mentioned in Section 1 of this plan, the Airport has significant opportunities to develop future revenue. These opportunities stem from the attraction of new aviation activity and tenants, along with the sale or lease of non-aviation property. This business plan outlines the possible steps the City can take to improve revenues over the 10-year planning period. The sections that follow summarize the recommended Business Plan for the Airport:

- Recommended Management and Policy Actions
- Revenue Enhancement Recommendations
- Cost Containment Strategies
- Impact of the Recommended Plan on Revenues and Expenses
- Summary of Business Plan Recommendations

### 6.1 Recommended Management and Policy Actions

Management and policy actions may have no immediate financial return, but instead, address the practical issues of operating South Texas Regional Airport at Hondo. Recommendations for this section deal with staffing, security, and land release issues. Each of these action areas are discussed in the following subsections.

#### Airport Staffing

Currently the Airport is run very efficiently. As discussed in Section 2 of this Plan, the staff of South Texas Regional Airport consists of one administrative position, three full-time airport technicians and one part-time airport technician. The City is currently seeking a full time Airport Manager that would report directly to the Public Works Director. Under the new system, the Airport Administrative Assistant would also report directly to the Public Works Director.

Airport staff are currently used to pump fuel and service aircraft as a function of providing FBO services. Each of the airport technicians are cross-trained to handle fuel and other maintenance activities. The only way to trim this efficient staff would be to have a private FBO take over the fuel sales at the Airport. This action could result in the cutback of one full-time employee. However, the remaining employees must still maintain the Airport. This financial trade-off is examined in Section 6.3 of this report. Information from that analysis indicates that the City would have to forfeit revenue from fuel sales profits in order to contract with an FBO. The City could charge a fuel flowage fee and could cut its labor costs at the Airport. However, the amount of net revenue lost would average \$25,500 per year. Currently, the cost savings may not be worth the losses in operating revenue. Therefore, it is recommended that:

***The City of Hondo should continue to function as the FBO, operating the fuel concession with City staffing, unless an exceptional offer is made by an FBO.***



There may be other services and facilities that an FBO could bring to the Airport that would be worth the trade off for the fuel concession. For example, the FBO may offer to manage the Airport, provide aircraft maintenance, or a flight school as a part of the arrangement. These items would all be subject to negotiation and may result in a decision to contract with an FBO.

In terms of current Airport staffing, discussions with Airport Management indicate that the existing level of staffing is sufficient to accommodate the maintenance and fueling needs for the Airport. As such, it is recommended that:

***No additional staff are recommended for the Airport before 2015.***

In the longer term, an Airport Operations Manager may be needed to assist the Airport Manager if the activity from the Recommended Plan materializes. In addition, another employee may be required for adequate line coverage if the Airport increases its hours of fueling operation.

## **Branding**

When the Business Plan was initiated, there was a perceived need for Airport branding. Once the project was underway, City leadership determined that not only was there a need for Airport branding, but that the City itself needed a refreshed image and brand. Working with the City, R.A. Wiedemann & Associates has developed an overall branding program for Hondo that can then be used to develop a more specific Airport brand.

To initiate the branding program, there are a number of actions that can be undertaken including: a unified Airport/City logo/brand, a standalone Airport website that will be linked to the City website, increased utilization of social media, improved signage at the Airport entranceway with directional signage from Highway 90/19<sup>th</sup> Street to the main terminal building, a promotional brochure, and a marketing campaign including direct mail, printed materials, and video/multimedia. It is anticipated that development of a unified logo and branding image will help communicate the City's commitment to business and economic development. By linking the City and Airport brands, the City emphasizes its belief in the importance of the Airport as a vital link to the future of Hondo. Areas of influence that the Airport would want to include in a branding message include intermodal transportation; the oil industry; flight training; aircraft maintenance, repair and overhaul; helicopter businesses; jet aircraft operations; and light general aviation.

## **Website and Social Media**

In today's technology driven culture, social media and a website can represent an Airport's first impression with potential customers. For this reason, it is essential that the Airport have a quality "Welcome Mat" with accurate information on the web. The current Airport website is minimal and available only on the City's website. To better compete with Airports already serving the desired customer base, it is essential that the Airport develop a content rich, easy to navigate website. The site should include good information on Airport history, pilot data,

attractive photos, helpful links, and social media connections to Facebook and Twitter. The following are just a few enhancements that should be considered to boost the overall experience for visitors of the site:

- A professional design with dynamic images (that transition automatically) to add movement and interest. This new design should include themes that communicate the true spirit of Hondo and its attractions.
- Introduction and prominent usage of the revised Airport/City logo.
- A Gallery Page which would incorporate selected images depicting Airport activity.
- Streaming media (such as the new Airport video).
- Frequent updates to information.
- Links to social media accounts actively in use by the Airport such as Facebook and Twitter.
- Contact information, links and any special rates/discounts for area hotels, restaurants, and other attractions.
- Enhanced ground transportation links to taxi companies, rental car agencies, etc. if available.
- A well maintained and functional Facebook page linked to a twitter account that tweets every time a Facebook update is made.
- Incorporate the new website look into the social media accounts (e.g., new color schemes) to ensure a cohesive brand.

Therefore, it is recommended that:

***The Airport should undertake improvements to its website and social media Accounts to convey its new branding.***

### ***Promotional Brochure***

There are many unique attributes that must be communicated to potential and existing Airport customers, as well as to local citizens and law makers responsible for voting on legislation that impacts the Airport. Much of this information may be effectively presented on the Airport website. It is also essential at times however, to make this information available in printed form. A concise four-page color brochure highlighting the Airport's positive features would provide a significant benefit. The objective is to provide an engaging source of information that could be read and assimilated in about five minutes. Links to the Airport website and contact email addresses and phone numbers would be included for those seeking additional information. The brochure would also reflect all enhancements to the Airport brand. Therefore, it is recommended that:

***The City of Hondo should develop a brochure that reflects the Airport's enhanced brand and clearly stated business objectives.***

### ***Improved Airport Signage***

With a variety of tenants on Airport property, numerous avenues of access, and a desire to attract new tenants and itinerant users, it is essential that the City/Airport generates and positions attractive directional signage guiding visitors to and from the facility. While it may be relatively simple for most locals to navigate, it should not be a challenge for anyone to locate the Airport terminal. If the City establishes a preferred route, it would be advisable to implement specific measures to systematically – and over time - enhance and visually beautify that “official” route into and out of the terminal area. Therefore, it is recommended that:

***The City of Hondo should contract the design and installation of quality directional signage that promotes the enhanced Airport brand.***

### ***Airport/City Logo and Branding***

There is general consensus that the development of an Airport logo should occur as part of a greater overall logo and branding effort for the City. To date, input received from the Mayor, City Manager and Director of Economic Development includes a variety of elements that reflect the history of the Airport and the City, and their location in South Central Texas. A brief summary document was prepared and submitted in PDF format outlining the considerations for a fresh “Hondo brand.” The preliminary designs on the following page are forwarded to stimulate discussions intended to lead to final logo development.

The colors and fonts used above were derived from historical icons. The deep blue from “Arroyo Hondo” Spanish for “Deep Creek.” The green is lifted from the City’s iconic welcome sign, and also represents the lush rolling terrain in growing season. The red is pulled (to accompany the blue) from the Texas state flag, and more recently the primary color of the Hondo Railroad. The stylized cowboy hat in one example is modeled from the Stetson worn by John Wayne in his famous western film “Hondo.” Regardless of whether the City chooses to go with a stylized modern theme, a rustic western theme, or something in between, the new brand will go far in presenting the City of Hondo (and the Airport) as a great place to visit and to do business.



With these concepts in mind, it is recommended that:

*The Airport and City should seriously pursue development of a new logo design that features the historic and progressive character of Hondo.*

## Marketing Campaign

Once the needed adjustments have been implemented to the Airport brand, website, social media, brochure, signage, logo, etc. it will be necessary for the Airport to begin communicating its new image to the world. This would involve a marketing campaign that features targeted direct mail to prospective customers/tenants, distribution of printed materials and video/multimedia, the possible placement of ads in selected trade publications, and increased presence at selected trade shows. Key industry segments that should be included in this outreach are: companies that utilize intermodal transportation; the oil industry; flight training; aircraft maintenance, repair and overhaul; helicopter businesses; jet aircraft operations; and light general aviation. Therefore, it is recommended that:

***The City should implement a focused marketing effort for the Airport that communicates its new brand and outstanding attributes to customers.***

This marketing effort would not be triggered until the branding work has been completed.

## Land Release

The City of Hondo proposed to release Airport property that will not be needed for aviation uses in the future. The release of this property from its FAA grant assurances and its subsequent development will help create economic self-sufficiency for the Airport through revenue streams that can better equip the City to pay their share of Airport operational and maintenance costs. A proposed land release plan was presented to FAA in April of 2013 explained the reasoning and economic value of releasing non-aviation property to the City. In summary, the following information was included:

- **Airport Size:** The original 3,518 acre military base was transferred to the City in 1948. Subsequent piecemeal releases of property have reduced that size to the current 2,383 acre Airport.
- **Maximum Future Aviation Land Need:** An analysis of potential future aviation needs was undertaken. A total of about 1,083 acres is needed. This analysis considered:
  - **Runway Lengths:** Maximum runway lengths would be determined by current Airport property boundaries. If additional land is needed for longer runway lengths, those considerations would not impact the land release strategies because the land to be released is outside any of the existing or potential aviation use areas.
  - **Additional Flight Line:** It is assumed that a flight line could someday be developed along Runway 13-31 that would require space for hangars or aviation industry buildings, auto parking, and access.
  - **Design Standards:** Airfield design standards for the highest appropriate level of general aviation activity would be included in any land requirements associated with the aeronautical portion of the Airport.
  - **Airport Master Plan/ALP:** Long-range plans contained on the Airport Layout Plan were included in this analysis.



- **Desired Property for Release:** A total of 1,300 acres of non-aviation land has been identified for release. Under the highest activity scenario conceived, this property will not be needed for aviation purposes. The property would be released on an as needed basis, with as few delays as possible for each separate release.
- **Financial Benefits to the Airport:** There are a number of financial benefits that would accrue to the Airport with the release of property and clear title to the City that are described in the analysis. Briefly, these included:
  - **Increased Tax Base:** Attraction of business and industry to Hondo, which will increase the tax base and help to assure the financial support and economic self-sufficiency of the Airport through these revenues.
  - **Water Rights Revenue:** Retention of water rights by the City, which could create long term lease revenues to the Airport in support of its operation.
  - **Mineral Rights Revenue:** Retention of mineral rights by the City, which could create millions of dollars in energy leases and royalties in support of the Airport and its operation.
  - **Positive Financial Analysis:** Financial analysis that shows a significantly increased income benefit to the City and Airport from the release of non-aviation property.

It is understood that the excess property cannot be released all at once. Discussions with FAA have revealed a process that will be used to expedite the release of each land parcel that has a buyer or leased use. That process involved the development of "pre-approved" base documents that will help TxDOT and the FAA administer the legal process of land release. The FAA would receive the request after TxDOT Aviation has completed their review and approved the request. Therefore, it is recommended that:

***The City of Hondo should implement its land release plan by preparing "pre-approved" documents required by FAA and TxDOT.***

The land release process used by the FAA involves publication of the proposed release in the Federal Register. The publication includes a 30 day notice period, plus time to allow any questions or comments to filter through the system. If there are no questions or comments, the release would be approved. If there are questions or comments, then sufficient time would be needed to respond. The time needed to respond would be unique to each situation. The release would be dependent on the significance of the responses. If there were no questions or comments to the Federal Register notice, the projected time to grant the release would be about 45 days. The City may request a release prior to obtainment of final sale documents. This allows the land release request to work its way through the system while the documents are being finalized.

The FAA acknowledged that some projects may fall through, so a risk is that land approved for release might not be released. In these cases, the release would be voided and started anew when a new purchaser presented themselves.



## Control of Land Surrounding Airport

In concert with the land release program, consideration should be given to land use controls on parcels adjacent to the Airport, to protect the future viability of the Airport. In order to avoid future potential conflicts with land uses surrounding the Airport, a series of planning and zoning steps can be taken that will ensure compatible development. Compatible land uses around airports follow a reasonable hierarchy of those land uses that are more appropriate than others near an airport environment. Listed from most desirable to least desirable, this hierarchy can be understood as:

- 1) **Undeveloped Land:** Any areas of land yet vacant or undeveloped due to low levels of socioeconomic activity, and/or significant constraints to such activity such as protected scenic and recreational areas, or natural physical constraints that have made economic activity cost-prohibitive.
- 2) **Rural/Agricultural Areas:** Any areas that can be characterized as being sparsely settled with primary activities being related to agricultural use. Potential airport-related noise would have minimal impact on these areas. In addition, the rural nature of these areas poses little threat to life and property damage in the event of an aircraft emergency or incident.
- 3) **Industrial Areas:** Industrial areas are those where some degree of manufacturing, warehousing, distribution, assembly, or production activity occurs. Typically, industrial areas are characterized by private interests and enterprises that have organized for the purpose of making goods and/or services for sale. Industrial areas are more capable of absorbing noise impacts than other high density development. However, industrial areas are less desirable in the vicinity of airports than are agricultural areas due to the higher numbers of people that are attracted to these areas.
- 4) **Commercial/Retail Areas:** Commercial and retail areas are those that can be characterized as having office buildings and commerce parks, restaurants, franchise and specialty goods outlets and the like. These areas are impacted more by airport-related noise than the three previous categories listed above due mostly to the human activities that occur there. Commercial and retail areas represent nodes of economic activity for most cities, towns, and suburbs, that attract larger numbers of people.
- 5) **Residential Areas:** Residential areas are those characterized by the predominance of single and multi-family dwelling units located there, along with the wide variety of public and quasi-public institutions that support these areas. In addition to homes, residential uses include schools, churches, community centers, recreation/sports facilities, daycare centers, nursing and assisted living facilities, and other uses that are generally enjoyed as quality-of-life-enhancing amenities. Residential areas are the least compatible with airport-related noise due to the fact that people live and sleep in these buildings. In addition, safety concerns for both

property owners and airport users should limit the amount of residential land use in the near-airport approach areas.

Texas Airport Zoning Act (AZA Chapter 241 of the Texas Local Government Code), provides an effective tool for local governments to regulate the development of land and protect the airspace surrounding an airport. Currently, South Texas Regional Airport does not have airport hazard zoning in place. However, there is an Airport Overlay Zone that simply acknowledges the Airport property as being an used for aviation.

To define the land needed to protect the Airport and its neighbors from incompatible uses, work outside this business planning scope must be undertaken. Such work would establish the geographic areas that require protection, the criteria for designation of the land, the means to accomplish the land use controls (zoning authority), and whether or not the purchase of development rights or annexation of property into the City is needed. Because the Airport has no current controls on the development of property that could impact its operation and future viability, it is recommended that:

***The City of Hondo should create Airport Hazard Zoning with the goal of protecting the Airport and its neighbors from incompatible uses.***

The new Land Release Plan provides room for future expansion of the runway system, including 13-31 and 17-35. In addition, the potential preservation of Runway 4-22 is shown on the latest plan drawing. Thus, these runway extension should be reflected in Airport Hazard Zoning and mapping.

It is important to undertake this process sooner than later, since land use is easier and less expensive to control before it is developed. In this regard, prevention of problems is a desired mechanism for the City to consider. Therefore, it is recommended that:

***The City of Hondo should continue to link its building permit process to the adopted Airport Hazard Zoning Ordinance.***

New development in some communities must receive approval on the building permit form itself, showing that the proposed structure will not penetrate imaginary approach surfaces for the airport. Using the building permit process for land controlled by the City Hondo could simplify and limit structure height and/or land use types in the vicinity of the Airport. To be completely effective, this may mean that more land outside current City control would need to be annexed in the future.

## **Airport Security Systems**

There are many security, theft, vandalism, and safety issues that can occur, leaving an airport sponsor liable for damages. Some of these events could be resolved or prevented entirely by the installation of tamper resistant security cameras in key locations in and around the airport.

Currently at South Texas International, there are no security cameras in place. If the budget permits, cameras should be installed in the terminal building, ramp area, and around key hangar areas. In addition, the City may desire to team with the Hondo Railway to share security camera information.

Security cameras record exactly what happens when Airport staff are not present. For damage to facilities, aircraft, or private property, security camera recordings can provide answers and help assign responsibility for financial liability. In addition, cameras can be used to track airport rules and regulations violations by chronic repeat offenders. While few people appreciate a "Big Brother" surveillance system, it does help to solve issues of property damage or theft and to keep honest people honest. Concern over privacy can be eased somewhat through the development of a privacy policy directed toward the use and access of surveillance video footage.

A wide variety of cameras and systems are available. So it is important to compare apples to apples in reviewing such systems. Key considerations that are regularly recommended include:

- **Camera Resolution:** Many base systems have camera resolutions of 420 TVL (television lines) or less. Higher quality systems feature cameras of 500 TVL or greater. The higher the resolution, the clearer and more distinct the images produced. This can be very important in identifying perpetrators or tracing key events.
- **Weather Resistance of Exterior Cameras:** Somewhat self-explanatory. All outdoor cameras must be weather (precipitation and temperature) resistant.
- **Night Vision or Low Light Sensitivity:** Considering the likelihood that most troublesome events are going to occur after hours and when the airport is least active, the ability of the exterior cameras to capture quality images in poor lighting situations is vital.
- **Surveillance Grade Recorder and Hard Drive:** It obviously will not make much difference in the quality of cameras if the footage is not recorded in a secure manner that may be preserved and accessed as needed. We recommend a 2TB hard drive with H.264 (MP4) video compression.
- **Internet Connectivity with "Push" Notifications:** It is important that after hours activities on the airport be addressed as soon as possible. A video system with internet connection and the ability to notify approved management of activity as it happens is essential. Motion clips will be uploaded automatically to a secure website, and may be accessed remotely from virtually anywhere in the world with an adequate internet connection via smartphone, tablet or computer. This feature would be invaluable on smaller, less active general aviation airports. Appointed recipients could remotely access the uploaded video clips and determine the appropriate response depending upon the type of activity recorded.
- **Quality Installation:** The best equipment will not matter if it is specified or installed poorly. Bargains may be found on good equipment, but it is important that it be installed correctly, and a quality installer is well worth the cost.

A basic eight-camera system (that does not require extensive video cable runs of more than 100 feet from the central recording system) may be acquired and installed for less than

\$5,000. Such a set up would include a 2TB Hard drive equipped recorder with internet access, "push" notifications to appointed recipients whenever a camera detects motion. This system would permit many smaller GA airports to monitor terminal/FBO areas, ramp, fueling, auto parking, field access and other essential areas.

A more complex 16-camera system with additional "exterior" cameras, longer cable runs and remote cameras may be acquired and installed for under \$10,000. This system also features a 2TB recorder, internet uploads and "Push" notifications. Clearly, these are just simple estimates for basic coverage. Airports with large layouts, and remote areas will require more investment to provide greater coverage. For a great percentage of general aviation airports, an investment in a quality video security system could pay for itself many times over from just one event that may be decisively resolved with clear video evidence. Therefore, it is recommended that:

***Security cameras should be installed at the Airport, providing monitored coverage of the terminal, ramp, hangar, and fueling areas.***

## **Educational Partnerships**

As mentioned in Section 5, the South Texas Regional Training Center was opened on South Texas Regional Airport to serve the vocational and academic individual needs of Hondo, Medina County and the surrounding area. The facility is operated under an Interlocal Agreement between the City of Hondo, Medina County, and Southwest Texas Junior College in Uvalde. Discussions with the City confirm the desire to include Alamo Colleges in San Antonio and possibly Texas State Technical College in Harlingen as potential resources for the development of expanded course offerings to include aircraft mechanic training and possibly airport management courses. Southwest Texas Junior College provides mostly academic courses and the added vocational training in aviation could be provided by these adjunct institutions.

The expansion of the South Texas Regional Training Center to include aircraft mechanic training and other aviation classes requires the City to negotiate with the President of the Southwest Texas Junior College in Uvalde. Usually, budget matters are involved in programs like these and the City should be prepared to show the regional demand for aircraft mechanic jobs, along with the numbers of students that may be attracted to such a program.

Information that can be used by the City concerning aircraft mechanics in the greater San Antonio region include the following:

- Average salary: \$49,000<sup>1</sup>
- Current Aircraft Maintenance Job Openings in San Antonio: 34<sup>2</sup>

<sup>1</sup> Source: <http://www.indeed.com/salary/q-Aircraft-Mechanic-l-San-Antonio,-TX.html>

<sup>2</sup> Source: <http://www.indeed.com/jobs?q=Aircraft+Mechanic&l=San+Antonio%2C+TX&radius=50&start=10> for July 5, 2013.

When the search is broadened to include Aviation or Aircraft Maintenance or Repair jobs in San Antonio, there are 3,625 job openings listed. While a number of these are with the military, it can be stated that the job market near Hondo is favorable toward aviation careers. Should a Maintenance/Repair/Overhaul operation be attracted to South Texas Regional Airport, the South Texas Regional Training Center could be a supplier of qualified technicians to work for the MRO. Therefore, it is recommended that:

***The City should begin negotiations with South Texas Regional Training Center to expand the program to include aircraft maintenance and other aviation-related courses.***

## **6.2 Revenue Enhancement Recommendations**

Revenue enhancement options for South Texas Regional Airport are based upon the Plan's recommended business response to aviation demand growth in the region. The sections that follow describe how a number of options might improve revenues for the Airport. The projected levels of enhanced revenues, which are presented in tables at the end of this section, reflect these and other specific initiatives recommended by this Plan.

### **Attraction Corporate/Business Aviation**

As the general aviation industry has evolved, most airport owners, sponsors, and operators throughout the country have recognized that corporate/business aviation provides a higher source of revenue to airports than recreational general aviation. This is especially the case given the rising costs of fuel, which business users can more easily pass on to customers. For South Texas Regional Airport, corporate and business aviation can spur increasing fuel sales, potential maintenance activity, and aircraft storage revenues. Key to this finding is the fact that there are currently 73 based jets in the HDO service area. Just a small percentage increase in market share would add a significant revenue base to the Airport.

Several actions that the City can take will encourage more corporate aviation at South Texas Regional Airport:

- Market the new branding for the Airport to the corporate aviation community
- Develop additional corporate hangar space along with business amenities and services
- Encourage or provide corporate amenities and services

Each of these action items are discussed below.

### **Marketing the New Brand**

In 2012, the City changed the name of the Airport to South Texas Regional. Since that time, no marketing has been done to convey this new brand to the larger aviation business concerns in the region. It is time for the new Airport branding to be marketed to possible aviation concerns in the greater San Antonio region. This would include the corporate aviation market

along with the smaller general aviation users as well. The marketing effort should use direct mail, social media, Internet, and video. The video being produced as a part of this Business Plan can be used in all of these outreach efforts.

It is recognized that without resources, marketing seldom occurs. Thus, a budget will be needed for the Airport that allocates money each year for marketing. The pro formas presented at the end of this section show a minimal allocation of \$15,000 per year for on-going marketing. Thus, it is recommended that:

***The City should set aside a budget for Airport marketing each year for outreach to corporate and business aviation.***

In addition to marketing, it is sometimes necessary to provide incentives for the relocation of businesses to an airport. Those incentives cover a wide range of financial and non-financial inducements but are mainly concentrated on the following:

- Low or No-Interest Loans
- Grants and Subsidies
- Tax Abatement
- In-Kind Services
- Employee Training
- Land Procurement
- Build-to-Suit Facilities

There are a number of State-funding incentives and loan programs that can be tapped by the City of Hondo. In addition, the local B-Type Corporation can make funds available for economic development purposes. All of these avenues should be explored when soliciting new corporate or business tenants. Therefore, it is recommended that:

***The City of Hondo should consider incentives to attract and grow aviation-related businesses at the Airport.***

### ***Additional Corporate Hangars***

In order to attract corporate and business aviation, readily available aircraft storage space is needed. Currently, there is no available hangar space on the Airport for business jets. The City thought that the vacant U.S. Aviation Academy hangar may be available for such use, but it has been committed to other uses. One other large hangar that will revert to City ownership within seven years is being actively used by its tenant and will not likely be available for early reversion. Thus, it is recommended that:

***To attract more corporate and business aviation, the City should provide additional conventional hangar space.***



As discussed in a subsequent subsection, the construction of additional hangar space can be undertaken with City funding and/or with third-party funding.

### ***Other Amenities and Services***

There are a number of amenities and services that would help the Airport attract more corporate customers and create convenience for users. In this regard, it is important for business users to have all-weather operational capabilities (precision instrument approaches), ready access to business centers (car rental or taxi service), business meeting locations on the Airport, along with food/catering services, professional aviation services, and aesthetics. Comments from Airport users concerning the lack of a car rental or taxi indicated a significant gap in needed Airport ground transportation services. The City has recently made available a courtesy car for Airport users. Even so, the City should consider entering a formal agreement with a rental car company to provide ready rental cars at the Airport.

Other business amenities involve business meeting locations at the Airport itself. In this regard, some corporate air travelers fly to an airport and meet with local contacts right at the airport. The terminal building at South Texas Regional Airport has a conference room that can be used for these purposes. Other similar services for business people involve package reservation deals for business-class hotels and restaurants in Hondo. Currently, there is one business-class hotel in Hondo - the Best Western. In this regard, the Airport should work to provide arrangements to offer discounts and transportation for those reserving rooms at that hotel.

In the past, a restaurant located at the Airport proved to be a lucrative business that attracted both local and itinerant patrons. Unfortunately, a fire destroyed the business and it was not rebuilt. Because there is currently no restaurant at the Airport, this represents an opportunity that could be beneficial to the Airport and corporate aviation that desires catering.

Given the need for these business amenities and services, it is recommended that:

***The City should continue to encourage or provide rental cars, courtesy vehicles, and hotel and restaurant connections.***

Increased security at the Airport is a corporate amenity that is demanded at most business airports. In this regard, recommendations for increased security have been offered in Section 6.1 of this report. Although not currently needed here, Airport Rescue and Fire Fighting (ARFF) services are sometimes requested by corporate flight departments. Unless a very large jet operation or Maintenance/Repair/Overhaul station bases at HDO that requires such service, it is generally not cost-effective for the City to operate.

### **Hangar Development**

Hangar demand at South Texas Regional Airport was estimated to include 30 T-hangars and three large corporate hangars (36,000 square feet) over the next 10 years. Confirmation of

this demand comes in the form of waiting lists. This demand can be accommodated through a variety of methods. The primary methods analyzed in this analysis include the following:

- Ground Lease with private hangar development
- City development of new hangars
- Combination of City and private hangar development

These methods were used in evaluating potential net revenues to the Airport, based upon demand forecasts through the year 2022. There is more than adequate space for this development in areas along the current flight line or along Runway 13-31 if access is developed to that area. Airport master planning drawings can show the optimum location for the proposed hangars.

Analysis of potential hangar construction by the City indicated that construction grants would be needed in order to ensure a financial return on investment. Table 18 presents a pro forma showing the typical cost to develop conventional hangars and T-hangars at the Airport. If debt were used to finance the hangar construction, it would be difficult to recoup the investment from rental fees. The Table shows how much would have to be charged just to repay the debt. As shown, the breakeven point for financing the construction over 20 years requires prices to begin at \$360 per month per T-hangar unit and \$3.73 per square foot per year for corporate hangar space. This amount does not include maintenance or any rate of return on the investment. Thus, these are the lowest rates that could be anticipated without grant funding.

| <b>Table 18 - City/Airport Hangar Development Model</b> |                   |                     |                |
|---------------------------------------------------------|-------------------|---------------------|----------------|
| Hangar Type                                             | Construction Cost | Annual Debt Service | Debt Coverage  |
| 10-Unit T-hangar                                        | \$650,000         | \$43,259            | \$360/mo./unit |
| 10,000 sf Conv. Hangars                                 | \$560,000         | \$37,269            | \$3.73/sf/yr.  |

Of the two hangar types, the more difficult to rent would be the T-hangars, given the prices that would be roughly \$400 to \$450 per month with all utilities and other costs included. Current rates for T-hangars at South Texas Regional Airport average about \$150 per month (enclosed T-shade). Therefore, the City would not likely elect to build T-hangars without grants, using debt funding.

Alternatively, the City can use Type B Corporation funding to construct revenue-producing hangars as a means of economic development. There has been a percentage of sales tax specifically allotted for economic development in Hondo. In addition to this, support from TxDOT in the form of grant assistance is available on a limited basis to fund hangar construction.

It should be noted that financial returns on the development of T-hangars are generally below the private sector desired rate of return. At some airports, the role that the airport sponsor has taken involves funding needed facilities and services that the private sector will not fund. This is due to an ability to accept less-than-market rates of return on investments as a trade-off for providing the infrastructure needed for overall success. By constructing T-hangars, for example, the entire Airport could benefit through increased operational activity, increased fuel

sales (supporting the City), and increased maintenance activity (supporting on-airport businesses). Fortunately, the City has already entertained the concept of using Type B Corporation funding for hangar construction at the Airport. As such, it is recommended that:

***The City should enclose all 21 open hangar shades and construct up to nine more T-hangar units over the next 10 years, using grant and debt funding.***

Similarly, the development of conventional hangar space that rents for \$4.00/sf/yr. (with all utilities and other costs) may be difficult to lease because of the prevailing hangar rates at South Texas Regional. Again, grant funding of even 50 percent of the construction costs would make the rental rates for a new hangar competitive with the other existing hangars on the Airport. Therefore, it is recommended that:

***The City should develop conventional hangars with grant funding where available and as demand warrants.***

Because the City's large conventional hangar has been recently rented, there is no vacant space for new tenant rentals. In this regard, it is recommended that a 10,000 or 12,000 square foot "spec" hangar be constructed to attract corporate aviation and/or to provide itinerant aircraft storage. As soon as this facility is leased, another can be constructed and so on. This way, as activity at South Texas Regional Airport increases, requests for hangar space can be taken until there is enough critical mass to warrant construction of additional hangars.

In the event that more hangar space is needed than can be funded with grants and debt financing, the City should look to the private sector to provide the additional hangar space. As such, it is recommended that:

***The City should seek hangar development from private enterprise if the funding required cannot be raised through grants and/or borrowing.***

For private hangar development, the City should ensure that it has rights to the reversion of leasehold improvements at the expiration of the lease. Reversion clauses have become normal in the aviation industry for a number of reasons. These include maximizing future revenue streams and maintaining a level of control over the development and maintenance of facilities on the airport. Each airport has its own lease language and different approaches to the issue. From our analysis, it can be shown that the Airport will have greater financial production with the reversion clauses than without. As such, the reversion clause is a valuable part of the Airport's future revenue stream and should be included in all future leases. Therefore, it is recommended that:

***The City of Hondo should continue to include reversion clauses in all of its Airport ground leases.***

Once a property reverts to City ownership, it is incumbent upon the City to seek rental rates as close to market value as can be negotiated. It is understood that this may be difficult with tenants that have constructed their hangars and now must pay more for them after many years of leases. However, the value of the hangar is that it adjoins the Airport runway system. Thus, its location is functional to its value. Likewise, extending the lease should have some value above prevailing ground lease rates.

## **Flight Training**

The Airport has been used as a flight training base by U.S. Aviation Academy to train foreign pilots. The infrastructure for that activity is still in place for future flight training possibilities. There is approximately 14,300 square feet of aircraft storage space with 17,600 square feet of additional office/classroom space on two floors. As mentioned in Section 5, South Texas Regional Airport is an ideal location for flight training because of its relatively low activity airspace and multiple runway configuration. Flight instructors can use the various runway orientations to train pilots in the skill of crosswind landings and takeoffs. It is believed that the former U.S. Aviation Academy hangar would serve adequately as the base of operations for a new flight school at the Airport. In addition, there are two runway supervisory units that were once used by the military that are available for use in flight training.

The City has been in discussions with a company that may reintroduce flight training to the Airport. The FAA is not considering new applications for flight schools because of the budget sequester. However, the company may move an existing flight school to Hondo from another location. It is believed that the former U.S. Aviation Academy hangar would serve this new client with little alteration. Therefore, it is recommended that:

***The City of Hondo should seek a flight training tenant that would use the former U.S. Aviation Academy hangar.***

It is believed that the tenants in discussions with the City will bring a maintenance business to the Airport as well. Thus, the City's large conventional hangar may have a dual use: flight training and aircraft maintenance.

## **Corrigan Air Center Expansion**

Another key to the growth of overall revenues is the retention of large existing tenants on the Airport. In this regard, Corrigan Air Center desires to expand its footprint. Figure X shows the proposed expansion plan for the Corrigan hangars. As shown, there is a 50-foot distance between hangars that could be enclosed. That space would provide a location to consolidate the aircraft interior upholstery shop that is currently located roughly one-half mile away from their maintenance hangars. The long distance between work areas is inefficient and needs correction, according to Corrigan management. Because Corrigan does not use the entire 70 by 200-foot hangar for upholstery work, the consolidation action would free this entire hangar for other uses by the City. Therefore, it is recommended that:

***The City of Hondo should enclose the area between large hangars at Corrigan Air Center to permit the consolidation of work sites in one location.***

This additional space (around 5,000 square feet) should generate roughly \$10,000 annually in rents. Although the focus of this recommendation is upon Corrigan Air Center, the City should look for opportunities to retain and expand other tenants, as well.

## **Rates & Charges**

Grant Assurance 24 states that airports must set rates, charges, and leasehold rents that, to the extent possible, will ensure the financial self-sustainability of the airport. To achieve this, it is important that rates are set that reflect the fair market value of property in and around Hondo. Current pricing at South Texas Regional Airport include the following averages:

| <b>Property Type</b>               | <b>Av. Rent SqFt/Yr</b> |
|------------------------------------|-------------------------|
| • Hangar Building                  | \$1.92                  |
| • Ramp Area                        | \$0.10                  |
| • Off Ramp Land (Aviation Related) | \$0.015                 |
| • Farm Land (Non-Irrigated)        | \$0.007                 |
| • Farm Lease (Irrigated)           | \$0.034                 |

### **T-Hangar Rates Per Month:**

|                           |       |
|---------------------------|-------|
| • T-Shade Rental          | \$65  |
| • T-Shade Enclosed Rental | \$150 |

To determine whether or not these rates are considered reasonable, a review of 2011 survey data from TxDOT was undertaken. In a survey of over 200 general aviation airports in Texas the following averages for rates and charges was revealed:

- Land Lease: \$0.20/sq ft
- Hangar Space: \$1.88/sq ft
- Office Space: \$4.79/sq ft
- Fuel Flowage Fee: \$0.08/gallon
- T-Hangar Monthly Rental: \$160<sup>3</sup>

These rates are not to be used as specific recommendations, but rather taken into consideration for reference when establishing rates and charges. Because of Hondo's unique location and services, these rates may not reflect fair market value at the Airport. Forces of supply and demand should be the final deciding factor when setting these rates.

<sup>3</sup> Represents Hondo service area airport averages from Section 3 of this report.

When comparing the statewide and regional averages to the prices charged at South Texas Regional Airport, several observations can be made. First, the rates for conventional hangar space and T-hangars are considered reasonable and only require annual escalations. Second, the rates for ground leases are somewhat low relative to the other averages. In this regard, the ground lease rates should be increased to \$0.20 per square foot or higher for any private hangar construction parcels. Because the City sells the fuel, there is no fuel flowage fee. Instead, there is an average fuel margin derived from a 20 percent markup of wholesale fuel prices.

There were no comparative prices for farm leases, but because there is more than one farm operator lease, it can be assumed that the market forces are helping to determine a fair price for the land.

It is important to note that current leasehold agreements have an Escalation Clause for rents that compensate for inflation. The majority of leases specify a "rental adjustment," commonly referred to as an escalation clause. These rental increases vary by lease, but the majority of leases are tied to a Consumer Price Index. This is an excellent practice that should continue to be utilized at the Airport.

Of course, the fair market value rental amounts should apply uniformly to all tenants on the Airport, and the City should avoid instances where one tenant has an unfair advantage over another. For each lease, however, factors such location, condition of facilities, and land use will cause the rental rates to vary slightly. Therefore, it is recommended that:

***The Airport should charge rates that reflect fair market value and apply those rates uniformly to all tenants without unjust discrimination.***

### ***Lease Structure Modifications***

The current leasehold agreements in place at South Texas Regional Airport cover a wide range of issues relevant to aviation lease issues. While non-aeronautical leases should be customized to address specific issues of each individual tenant, the aviation-related leases should all contain similar elements. In this regard, the following areas are currently not addressed in the majority of airport leases, and should be added to each applicable lease agreement:

- **Security Requirements:** This section should state that the lessee adheres to all federally mandated security requirements, as well as those specified by the South Texas Regional Airport.
- **Nondiscrimination Clause:** As a grant assurance issue, each lease should have a nondiscrimination clause, prohibiting any discrimination on the basis of race, color, or national origin.
- **Force Majeure:** This provision indemnifies both the airport and the lessee from being unable to meet the obligations of the lease agreement due to circumstances beyond its control, such as unavoidable acts of God and natural disasters.



Therefore, it is recommended that:

***The City should detail specific Security Requirements, Nondiscrimination, and Force Majeure language in all aviation-related leases.***

### ***Policies to Continue***

There is a broad spectrum of issues covered in the leasehold policy currently in use at South Texas Regional Airport. The lease elements identified in the current Airport lease documents that should continue to be utilized include the following:

- ***Description Sections:*** These sections serve to decrease the presence of ambiguity in the lease agreements by clearly specifying the Lease Term, Use of Premises, Reversion Clause, Assignments & Subletting, Holdover, and Term Extension Options.
- ***Indemnification Sections:*** These sections include Insurance Obligations (property, general liability, auto, and fire), Hold Harmless Provision, and Damage to Facilities.
- ***Regulatory Standards:*** These clauses state that tenants must comply with all applicable federal, state, and local regulations. Other sections pertinent to Airport standards include Living Clauses citing Airport Rules and Regulations, and Construction of Improvements.
- ***Financial Considerations:*** These sections outline the specific involved in Defaults, Liens, Taxes & Fees, and Operation & Maintenance Costs.

Therefore, it is recommended that:

***The Airport should continue utilizing various lease policies that limit ambiguity, comply with Grant Assurances, and adhere to the regulatory standards of the Airport.***

### **Non-Aviation Revenues**

South Texas Regional Airport has the benefit of several non-aviation sources of revenue. These include potential revenues from the expansion of Hondo Railway, the sale of water rights, energy exploration, and continued agricultural use. Each of these revenue sources is discussed in the following subsections.

#### ***Hondo Railway***

The Hondo Railway features daily local rail service interchange along with three days a week manifest interchange service from both Union Pacific (UP) Railroad and Burlington Northern Santa Fe (BNSF) Railroad companies. Dual Class I (BNSF and UP) rail service ensures

flexible scheduling and competitive freight rates for bulk shipping of the following major product lines:

- Ethanol
- Petroleum
- Oil Field Service (Frac Sand)
- Agriculture
- Food Grade Sweetener

Hondo Railway receives incoming unit train shipments of high fructose corn syrup, corn starch, and ethanol destined for the San Antonio market, and incoming manifest shipments of frac sand destined for the Eagle Ford Shale field. In addition, the Hondo Railway ships outbound crude oil from the Eagle Ford Shale field destined for ports and refineries. There are a number of affiliated companies that handle most of the 'rail to truck' and 'truck to rail' bulk products transloading at the Hondo railyard. Jobs associated with the Hondo Railway have increased from 24 in 2006 to 124 in 2012.

Perhaps the most pressing demand for released Airport land is for the entire 175-acre Railway Area (currently shown as needing an additional 40 acres). Given the current access to the non-aviation land, there are some immediate possibilities for development and some longer term possibilities that will need to wait on adequate roadways for access. The sale of land to the Railway would provide some of the needed funding for on-airport access to the west side along Runway 13-31. Therefore, it is recommended that:

***The City should release Airport land for sale to the Hondo Railway as their expansion needs are identified and finalized.***

### ***Water Rights***

Non-developed farmland in Texas has rights to aquifer water that runs under the property. Without irrigation, most crops would not survive the hot, dry Texas summers. Currently, the land has been under a three year drought. Each acre of land is allotted two acre-feet of water, which is equal to 651,702 gallons. A regulation Olympic-sized swimming pool holds about two acre-feet.

In Texas, groundwater is the property of the landowner. And until recently, under the State's "right to capture" rules, landowners could pump as much water from below their ground as desired. But in many areas, new water rules imposed by water districts are limiting how much a landowner can pump. The Edwards Aquifer region of Texas, which includes Medina County, is an example. A 1993 regulation, intended to curb unrestricted pumping from the aquifer, in most cases capped farmers' potential water permits at two acre-feet for each acre farmed. The rules allow farmers to sell up to 50 percent of their permitted underground water usage rights, but they must maintain the other half with the land. Farmers also can opt to lease their water rights annually, at which time they revert back to the landowner at the end of the lease. Some are even choosing to sell the land to buyers who want it simply for the water rights, and then lease the land back for farming. And since domestic wells are exempted from the permit rules and can

pump up to 25,000 gallons per day for household use, a farmer could sell his irrigated cropland's water rights and still have water for domestic use.<sup>4</sup>

These water rights can be kept for the City after the land is developed for non-agricultural production. The City's control of these rights on Airport property is an important asset that can be banked for the future. Currently, 465.5 acres of the farm lease come with irrigation rights. This land rents for 4.68 times the amount for land that does not have such rights. Thus, the City would desire to hold water rights for any property that is converted to non-agricultural uses. The value of water rights is currently estimated to range between \$3,000 and \$5,000/acre foot. If the Airport kept its water rights from released land, the City could buy or lease them, thereby helping to support the financial future of the Airport. Given this supply and demand scenario, it is recommended that:

***The City should retain all of its water rights for existing Airport property.  
These rights should be leased and the proceeds used for the Airport.***

The lease rate for Airport ground water was estimated at \$100 per acre foot per year.<sup>5</sup> Given the existing property acreage, this would result in a total potential of \$238,300 per year if the entire Airport water rights were leased. The amount that would be used by the City is dependent upon demand and the percentage of Airport property rights needed.

### ***Energy Exploration***

Of recent significance to the release of land at the Airport is the potential location of oil reserves in the Hondo area. A significant number of drilling permits have been granted in the Hondo area, suggesting that a wave of drilling and production will begin within two years or so. With this in mind, a land release strategy should be developed that preserves the City's mineral rights while making the ground area and access to it available for planned development. Denton Airport provides a good example of how royalties from gas wells on Airport property support the capital development of the Airport. Indirectly, the gas wells support the operation of the Airport when capital from the royalty fund is invested in revenue-producing projects such as hangars. In this manner, the money from the oil companies is used to set up a long-term annuity for the Airport.

Property development deals can be carefully crafted by the City so as to retain the mineral rights for revenue production. Discussions with industry representatives indicated that approximately 8 wells could be drilled on Airport property (one well for each 300 acres) while still remaining within required well spacing parameters. In addition, the average lease premium paid for land coming under lease for energy exploration is conservatively estimated at \$1,500 per

<sup>4</sup> Source: [http://www.findfarmcredit.com/farm-credit-bank-landscapes\\_2.aspx?cat\\_id=x&doc\\_id=47](http://www.findfarmcredit.com/farm-credit-bank-landscapes_2.aspx?cat_id=x&doc_id=47)

<sup>5</sup> Source: <http://www.statesman.com/news/news/local/scramble-to-secure-groundwater-rights-to-keep-up-w/nTQPG/>

acre in south Texas.<sup>6</sup> A mineral lease of the entire Airport may be worth \$3.6 million, before drilling or production begins. Once the oil or gas well begins production, royalties are paid to the owner, ranging between 12.5 percent and 18.0 percent of revenues. For gas wells, this can mean up to \$1.3 million for the first year of production. After that, the production curve drops off rather quickly (Figure 4)<sup>7</sup>. For oil wells, there is a similar typical decline curve that results in less than 30 percent of the first year production by the fifth year.

Even with these declines, the income from oil and gas royalties can be significant. For example, Denton Airport had gas well revenues of more than \$3.0 million in 2010. With depletion, these revenues were expected to total \$1.1 million by 2016. Even so, the 9-year fund balance was anticipated to reach \$8.7 million in cumulative revenues. This type of income would be significant for South Texas Regional Airport and could be preserved by stipulations within any land release program that was developed. Therefore, it is recommended that:

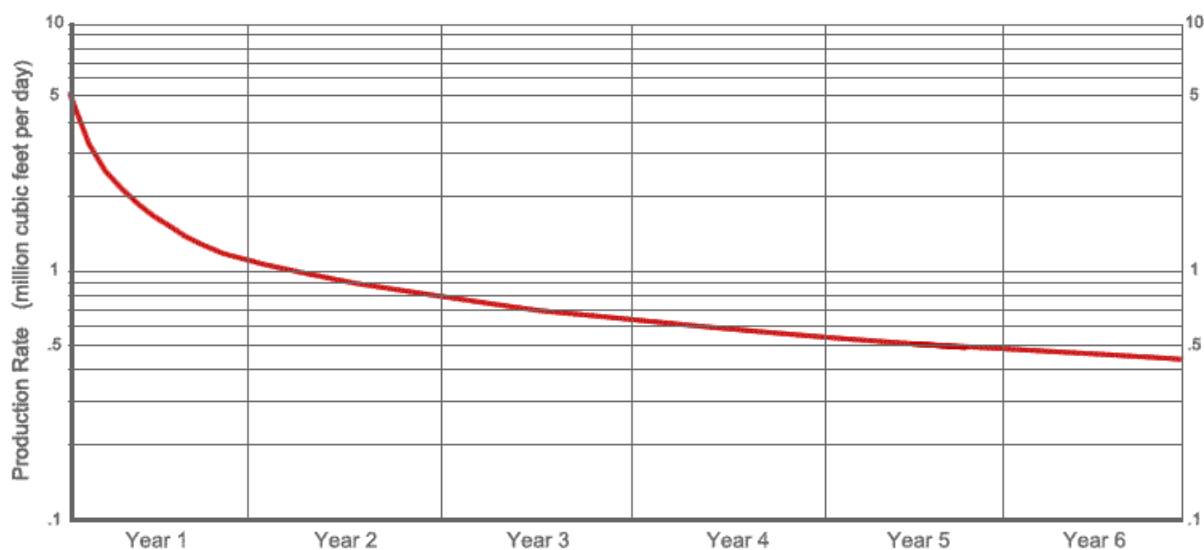


Figure 1 – Gas Well Production Decline Curve

***The City should retain all of its mineral rights for existing Airport property. These rights should be leased to energy exploration and drilling companies for Airport revenue production.***

### ***Agricultural Land Leases***

The City has several agricultural land leases totaling 1,150.5 acres. With extensions, the current leases end in 2018. Non-aviation land lease revenue was \$80,500 in 2011 and is

<sup>6</sup> Source: *Oil Boom in Eagle Ford Shale Brings New Wealth to South Texas*, by Robert W. Gilmer, Raúl Hernandez and Keith R. Phillips (Southwest Economy, Published by Federal Reserve Bank of Dallas, Second Quarter 2012) p. 5

<sup>7</sup> Source: <http://geology.com/royalty/production-decline.shtml>

anticipated to reach \$136,600 by 2032 if the current lease is extended for 19 years, using Consumer Price Index adjustments of 2.5 percent each year for inflation. These lease rates equate to roughly \$70 per acre in 2011 and \$119 per acre in 2032. The component parts of this average lease rate for 2011 include \$131.55 for the irrigated land (40 percent of total land area) and \$28.11 per acre for the non-irrigated land (60 percent of total land area). For 2032, it is anticipated that the rates would be \$244.72 for the irrigated land and \$52.30 for the non-irrigated land, all things being equal.

While greater returns can be obtained by converting agricultural land into other uses, the property should continue to be farmed until a specific proposal for other use is made to the City. In the Land Release Proposal to the FAA, an analysis of potential revenue production was made as it related to property values. Table 19 represents a hypothetical scenario where all non-aviation property (1,300 acres) is sold within a 20 year period. This assumes that an average of about 65 acres will be sold each year, representing an equal fraction of each land use. While actual land sales will vary by year and parcel size, the average rate of 65 acres/year represents the minimum overall average necessary to facilitate a 100 percent absorption rate over 20 years.

| <b>Table 19 – Revenue Projections for Non-Aviation Land Release</b> |            |                  |               |                |
|---------------------------------------------------------------------|------------|------------------|---------------|----------------|
| Year                                                                | Acres Sold | Interest Revenue | Farm Revenues | Total Revenues |
| 2013                                                                | 65         | \$11,449         | \$80,601      | \$92,050       |
| 2015                                                                | 195        | \$34,346         | \$74,540      | \$108,886      |
| 2020                                                                | 520        | \$91,590         | \$55,650      | \$147,240      |
| 2025                                                                | 845        | \$148,835        | \$30,508      | \$179,342      |
| 2030                                                                | 1,170      | \$206,079        | \$0           | \$206,079      |
| 2032                                                                | 1,300      | \$228,976        | \$0           | \$228,976      |

As shown, Interest Revenue increases as the funds received from property sales are placed into an escrow account yielding a 1 percent return on investment. By 2032, Interest Revenue is expected to be about \$229,000 per year, and represent the Total Revenues from non-aviation Airport land use. Simultaneously, Farm Revenues from lease agreements would be expected to decrease throughout the 20 year period as that revenue producing land is sold. Obviously, if the future interest rate was 1.5 percent or 2 percent or even higher, the hypothetical interest revenues would increase by that multiple.

If the revenues from interest on capital generated by the sale of non-aviation property at the Airport were compared with the future income from the agricultural land leases, it can be shown that by 2032, the land leases would be generating \$136,600 per year, while the interest on capital would be generating \$229,000 per year. This hypothetical comparison does not take into account the fact that under any sale of non-aviation Airport property, the City would retain both the water rights and the mineral rights to any oil or gas that may be discovered. Clearly, the Airport would be better off releasing/selling/developing its non-aviation property than holding it for the next 20 years. Therefore, it is recommended that:

***The City should continue to lease Airport land for agricultural purposes until other land sale opportunities arise.***

It should be noted that unless the land can be sold for an amount equivalent to \$11,873 per acre, it cannot out-produce the agricultural lease revenue (1,150.5 acres x 11,873 x 1 percent = \$136,600).

### **6.3 Cost Containment Strategies**

As mention in Section 5, cost containment strategies offer a means to improve net revenues without generating new revenue sources. At most general aviation airports, the highest expenditures are for labor and capital development. While capital expenditures are required to maintain and improve infrastructure, there is usually some leeway in handling labor costs. At some airports, there has been a successful use of FBO's as the *de facto* management for the sponsor. Most of these cases occur at low activity airports. In some instances, the fuel concession has been granted to an FBO in order to relieve the Airport of having to hire line service employees. This section of the Business Plan presents the financial aspects of using contract or entrepreneurial labor to serve various functions at the Airport.

#### **Joint FBO and City Operation of the Airport**

Currently, the City's Airport Manager fills two roles: manager of day-to-day operations and director of maintenance activities. The City believes that as the Airport becomes busier and new tenants are attracted to the facility, the Airport Manager may have to direct more time and energy to the upkeep of the infrastructure. Thus, an FBO that could manage the day-to-day operation of the Airport may fit with the City's plan to keep labor costs low. In return, the City may have to give up the fuel concession to the FBO. This action may eliminate one full-time line technician position, but because of the extensive maintenance (mowing and facility upkeep), at least two full time and one part-time employee will need to remain with the City at the Airport. In turn, the City would collect a fuel flowage fee for the sale of all fuel used on the Airport.

Under this operational scenario, the City would contract with an FBO to provide management personnel for the Airport. The City would still be required to provide legal and other City services to the Airport, but the actual day-to-day operation and management at the Airport would be undertaken by the FBO. As the FBO must staff the facility for its own business purposes, it could also provide watchful management of the Airport for the City, including:

- Daily Airport inspection
- Minor maintenance
- Apron and Itinerant Ramp management
- Reporting to City Manager and attendance at City Council Meetings
- Collection of specified fees



These and other tasks would be assigned to an FBO. By using personnel already located at the Airport, the City should save on labor costs using this method.

### Pro Forma for FBO Management Option

The financial impacts of hiring an FBO to manage the Airport cannot be precisely known because of the negotiation involved. However, an approximation of the cost savings and revenue changes can be estimated. On the revenue side, the margin from fuel sales would have to be given up and revenue from a fuel flowage fee would be substituted. On the cost side, at least one full-time line technician could be trimmed from the budget. On a longer-term basis, the City would not have to hire an Airport Director of Operations. Using these inputs to estimate the impacts upon the budget, a simplified pro forma was developed.

Table 20 presents the financial impacts of the FBO Management Option. As shown, the forecast fuel margin would be given to the FBO in exchange for managing the Airport. That management would relieve the City of hiring an Airport Operations Manager in 2015 as shown in the Recommended Plan pro forma. The labor saved, then, would include the immediate reduction of one-full time fueling technician, followed in two years by the elimination of a City-employed Airport Operations Manager position (that would have been needed at that time). If the City no longer sold the fuel, they would instead, collect a fuel flowage fee from the FBO fuel seller and from any self-fueling tenant on the Airport. Table 20 shows the fuel flowage fees gained in this management scenario. In some cases, FBOs charge a fee for management services. For this option, a minimal fee was included in the pro forma

| <b>Table 20 - Financial Impacts of FBO Management Option</b> |                   |                   |                   |                    |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Item</b>                                                  | <b>2014</b>       | <b>2016</b>       | <b>2019</b>       | <b>2022</b>        |
| Labor Saved                                                  | \$45,487          | \$97,790          | \$105,309         | \$113,407          |
| FBO Management Fee                                           | (\$25,000)        | (\$26,266)        | (\$28,285)        | (\$30,460)         |
| <b>Total Labor Change</b>                                    | <b>\$20,487</b>   | <b>\$71,525</b>   | <b>\$77,024</b>   | <b>\$82,947</b>    |
| Fuel Flowage Fees Gained                                     | \$23,608          | \$24,803          | \$26,710          | \$28,764           |
| Savings from Fuel Truck Lease                                | \$12,000          | \$12,000          | \$12,000          | \$12,000           |
| Fuel Margin Foregone                                         | (\$115,890)       | (\$121,757)       | (\$131,119)       | (\$141,200)        |
| <b>Total Fuel Revenue Foregone</b>                           | <b>(\$80,282)</b> | <b>(\$84,954)</b> | <b>(\$92,408)</b> | <b>(\$100,436)</b> |
| <b>Revenue Potentially Lost</b>                              | <b>\$59,794</b>   | <b>\$13,429</b>   | <b>\$15,384</b>   | <b>\$17,490</b>    |

Overall, there is a net loss of revenue (relative to the Recommended Plan) from using the FBO Management Option. The revenue potentially lost in 2014 is \$59,800, shrinking to \$13,400 in 2016, and then growing slowly to \$17,500 by 2022. Over the nine-year period, more than \$229,300 is cumulatively forfeited with this option.

Even with this potential loss of revenue, there may be a number of circumstances that negotiations reveal to be advantageous to the City for selecting an FBO. In particular, the FBO

may provide other services beyond airport management such as aircraft maintenance, air taxi service, avionics service, and/or parts supply. In some cases, FBOs have affiliations with large clients including corporate flight departments or the military. These FBOs can actually attract more activity to the Airport because of these relationships. Thus, the City must weigh the potential overall benefits of contracting an FBO for airport management services.

#### **6.4 Impact of the Recommended Plan on Revenues and Expenses**

The revenue enhancement and cost containment strategies recommended for South Texas Regional Airport represent opportunities to improve the financial performance of the Airport. These strategies will impact baseline projections of revenues and expenses and as such, have been quantified to the degree possible. Those impacts are discussed in this section.

##### **Revenue Impacts**

Quantifying the levels of additional potential revenue that might result from implementing the strategies presented above is highly subjective. In this regard, there are a wide variety of complex external economic forces that will have some affect on revenues at the Airport, not the least of which is the fluctuating cost of aviation fuel and uncertainty regarding the regional and national economic conditions. For this process, a number of assumptions for each strategy must be made, along with the resulting impact on revenues. Table 21 presents an optimistic forecast of how these enhancement strategies could impact the revenue picture for South Texas Regional Airport, if the assumptions for each scenario are met. The estimates in the projection of revenues are based on the following assumptions:

- **Non-Aviation Land Release:** The original assumption in the land release process was that 1,300 acres would be sold within a 20 year period. The number of acres is now likely to be reduced, but because the situation is somewhat fluid, no new estimate of land size has been generated. Thus, for the purposes of this Business Plan, the original assumption will be kept for now. This means that a projected average of about 65 acres would be sold each year, representing an equal fraction of each projected land use. While actual land sales will vary by year and parcel size, the average rate of 65 acres/year represents the minimum overall average necessary to facilitate a 100 percent absorption rate over 20 years.
- **Water Rights Lease:** The lease rate for Airport ground water was estimated at \$100 per acre foot per year. Given the existing property acreage, this would result in a total potential of \$238,300 per year if the entire Airport water rights were leased.
- **Enclosed T-Hangars:** The cost to enclose each 7-unit T-hangar is \$47,000. It's assumed that one 7-unit T-hangar is finished mid FY 2014 and the other two 7-unit T-hangars are finished by FY 2015.
- **Corrigan Air Center Expansion:** Cost to enclose the area between large hangars at Corrigan Air Center is estimated at \$142,500 and will add an additional 5,000 square feet

of hangar space. It is assumed that this space can be constructed and rented by mid FY 2014 at \$1.88 per square foot.

- ***New Company Land Rental:*** The City has been approached by a company desiring to lease the old U.S. Aviation Academy hangar and up to four times the amount of apron area for possible development of other hangar facilities. It is estimated that roughly 190,000 square feet of additional ground lease can be rented in the near term. Rates charged would be \$0.20 per square feet with an escalation every 5 years. It is assumed that the City would rent half of the total in FY 2014 and all of it by FY 2015.
- ***Fuel Revenue:*** With the increase of based aircraft, fuel revenue will increase by the activity associated with the new fuel consumption.

### **Impact on Expenses**

When projecting impacts of increasing activity at South Texas Regional Airport, and subsequent increases in revenue, it is important to consider any effects that such activity may have on expenses. Such impacts typically come from debt service for capital projects used to accommodate the growth and other business development related expenses such as marketing and advertising as described previously. The estimates in the projection of expenses are based on the following assumptions:

- ***Baseline Expenses Utilized:*** Since the recommendations will not affect all expense categories, the baseline forecast for most of the expense items remained the same as the baseline scenario.
- ***Branding and Marketing:*** Based on the recommendation for branding and marketing, the enhanced forecast includes a budget of \$15,000 per year throughout the forecasted period.
- ***Expanded Security System:*** It was assumed that an expanded security system would be installed for \$10,000 in FY 2014.
- ***Labor Costs:*** Discussions with Airport Management indicate that an Operations Manager position will be needed by FY 2015. This added position is expected to have a starting salary of \$50,000.

**Table 21 - Recommended Forecast of Operating Revenues and Expenses**

| <b>Operating Revenues:</b>                   | <b>FY 2013</b>   | <b>FY 2014</b>     | <b>FY 2015</b>     | <b>FY 2016</b>     | <b>FY 2017</b>     | <b>FY 2018</b>     | <b>FY 2019</b>     | <b>FY 2020</b>     | <b>FY 2021</b>     | <b>FY 2022</b>     |
|----------------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Hangar Rental                                | \$131,172        | \$196,334          | \$211,416          | \$214,873          | \$218,417          | \$222,049          | \$233,780          | \$239,198          | \$243,109          | \$247,119          |
| <b>Additional Hangar Rentals</b>             | <b>\$0</b>       | <b>\$16,441</b>    | <b>\$43,853</b>    | <b>\$44,949</b>    | <b>\$46,073</b>    | <b>\$47,225</b>    | <b>\$48,406</b>    | <b>\$49,616</b>    | <b>\$50,856</b>    | <b>\$52,128</b>    |
| Building Rental                              | \$17,157         | \$17,586           | \$18,025           | \$18,476           | \$18,938           | \$19,411           | \$19,896           | \$20,394           | \$20,904           | \$21,426           |
| Aviation Land Lease                          | \$28,156         | \$28,860           | \$29,581           | \$30,321           | \$31,079           | \$31,856           | \$32,652           | \$33,468           | \$34,305           | \$35,163           |
| <b>Additional Aviation Land Leases</b>       | <b>\$0</b>       | <b>\$9,483</b>     | <b>\$37,932</b>    | <b>\$37,932</b>    | <b>\$37,932</b>    | <b>\$37,932</b>    | <b>\$39,178</b>    | <b>\$42,917</b>    | <b>\$42,917</b>    | <b>\$42,917</b>    |
| Non-Aviation Land Lease                      | \$97,244         | \$99,675           | \$102,167          | \$104,721          | \$107,339          | \$110,023          | \$112,773          | \$115,593          | \$118,482          | \$121,444          |
| <b>Additional Revenues from sale of Land</b> | <b>\$0</b>       | <b>\$6,623</b>     | <b>\$12,905</b>    | <b>\$19,134</b>    | <b>\$24,561</b>    | <b>\$29,932</b>    | <b>\$35,245</b>    | <b>\$40,500</b>    | <b>\$45,694</b>    | <b>\$49,576</b>    |
| <b>Water Rights Lease</b>                    | <b>\$0</b>       | <b>\$145,200</b>   | <b>\$145,200</b>   | <b>\$145,200</b>   | <b>\$238,300</b>   | <b>\$238,300</b>   | <b>\$238,300</b>   | <b>\$238,300</b>   | <b>\$238,300</b>   | <b>\$238,300</b>   |
| Avgas 100LL                                  | \$202,769        | \$207,838          | \$213,034          | \$218,360          | \$223,819          | \$229,415          | \$235,150          | \$241,029          | \$247,054          | \$253,231          |
| Jet A                                        | \$288,810        | \$296,030          | \$303,431          | \$311,017          | \$318,792          | \$326,762          | \$334,931          | \$343,304          | \$351,887          | \$360,684          |
| <b>Additional Net Fuel Revenue</b>           | <b>\$0</b>       | <b>\$0</b>         | <b>\$7,950</b>     | <b>\$8,149</b>     | <b>\$8,353</b>     | <b>\$8,561</b>     | <b>\$8,775</b>     | <b>\$8,995</b>     | <b>\$9,220</b>     | <b>\$9,450</b>     |
| Miscellaneous                                | \$14,800         | \$15,170           | \$15,549           | \$15,938           | \$16,336           | \$16,745           | \$17,163           | \$17,593           | \$18,032           | \$18,483           |
| <b>Total Operating Revenues</b>              | <b>\$780,107</b> | <b>\$1,039,239</b> | <b>\$1,141,044</b> | <b>\$1,169,070</b> | <b>\$1,289,939</b> | <b>\$1,318,211</b> | <b>\$1,356,251</b> | <b>\$1,390,905</b> | <b>\$1,420,761</b> | <b>\$1,449,920</b> |
|                                              |                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| <b>Operating Expense:</b>                    | <b>FY 2013</b>   | <b>FY 2014</b>     | <b>FY 2015</b>     | <b>FY 2016</b>     | <b>FY 2017</b>     | <b>FY 2018</b>     | <b>FY 2019</b>     | <b>FY 2020</b>     | <b>FY 2021</b>     | <b>FY 2022</b>     |
| Personnel Expenses                           | \$206,857        | \$212,028          | <b>\$267,329</b>   | <b>\$274,012</b>   | <b>\$280,863</b>   | <b>\$287,884</b>   | <b>\$295,081</b>   | <b>\$302,458</b>   | <b>\$310,020</b>   | <b>\$317,770</b>   |
| Utilities                                    | \$16,811         | \$17,231           | \$17,662           | \$18,103           | \$18,556           | \$19,020           | \$19,495           | \$19,983           | \$20,482           | \$20,994           |
| Maintenance & Repairs                        |                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Building                                     | \$19,700         | \$20,193           | \$20,697           | \$21,215           | \$21,745           | \$22,289           | \$22,846           | \$23,417           | \$24,003           | \$24,603           |
| Grounds                                      | \$10,103         | \$10,356           | \$10,615           | \$10,880           | \$11,152           | \$11,431           | \$11,717           | \$12,010           | \$12,310           | \$12,618           |
| Equipment                                    | \$8,739          | \$8,957            | \$9,181            | \$9,411            | \$9,646            | \$9,887            | \$10,134           | \$10,388           | \$10,647           | \$10,913           |
| Supplies and Materials                       | \$36,277         | <b>\$47,184</b>    | \$38,114           | \$39,067           | \$40,043           | \$41,045           | \$42,071           | \$43,122           | \$44,200           | \$45,305           |
| 100 LL                                       | \$164,680        | \$160,035          | \$164,036          | \$168,137          | \$172,341          | \$176,649          | \$181,065          | \$185,592          | \$190,232          | \$194,988          |
| Jet A                                        | \$211,774        | \$227,943          | \$233,642          | \$239,483          | \$245,470          | \$251,607          | \$257,897          | \$264,344          | \$270,953          | \$277,727          |
| Insurance                                    | \$17,540         | \$18,417           | \$19,338           | \$20,304           | \$21,320           | \$22,386           | \$23,505           | \$24,680           | \$25,914           | \$27,210           |
| Professional Fees                            | \$46,981         | \$48,156           | \$49,359           | \$50,593           | \$51,858           | \$53,155           | \$54,484           | \$55,846           | \$57,242           | \$58,673           |
| Contractual Services                         | \$91,523         | \$93,811           | \$96,157           | \$98,561           | \$101,025          | \$103,550          | \$106,139          | \$108,793          | \$111,512          | \$114,300          |

| <b>Table 21 - Recommended Forecast of Operating Revenues and Expenses</b> |                    |                  |                  |                    |                    |                    |                    |                    |                    |                    |
|---------------------------------------------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Environmental Remediation                                                 | \$50,000           | \$50,000         | \$50,000         | \$50,000           | \$50,000           | \$0                | \$0                | \$0                | \$0                | \$0                |
| <i>Marketing</i>                                                          |                    | <i>\$15,000</i>  | <i>\$15,000</i>  | <i>\$15,000</i>    | <i>\$15,000</i>    | <i>\$15,000</i>    | <i>\$15,000</i>    | <i>\$15,000</i>    | <i>\$15,000</i>    | <i>\$15,000</i>    |
| <b>Total Operating Expenses</b>                                           | <b>\$880,985</b>   | <b>\$929,312</b> | <b>\$991,130</b> | <b>\$1,014,767</b> | <b>\$1,039,018</b> | <b>\$1,013,902</b> | <b>\$1,039,434</b> | <b>\$1,065,633</b> | <b>\$1,092,515</b> | <b>\$1,120,101</b> |
| <b>Net Operating Revenues (Loss)</b>                                      | <b>(\$100,878)</b> | <b>\$109,928</b> | <b>\$149,914</b> | <b>\$154,303</b>   | <b>\$250,921</b>   | <b>\$304,309</b>   | <b>\$316,817</b>   | <b>\$325,273</b>   | <b>\$328,245</b>   | <b>\$329,819</b>   |

## Comparison of Revenues and Expenses for Recommended Plan

Table 22 presents a comparison of the enhanced operating expenses and forecasted levels of enhanced revenues. As shown, net revenues are anticipated to grow after 2013, as new tenants and revenue growth strategies are implemented.

| <b>Table 22 - Recommended Plan Revenue vs. Expense Comparison</b> |                    |                    |                        |                         |
|-------------------------------------------------------------------|--------------------|--------------------|------------------------|-------------------------|
| Fiscal Year                                                       | Operating Revenues | Operating Expenses | Non-Operating Expenses | Net Revenues/ (Deficit) |
| 2013                                                              | \$780,107          | \$880,985          | \$46,569               | (\$100,878)             |
| 2014                                                              | \$1,039,239        | \$929,312          | \$330,069              | \$109,928               |
| 2015                                                              | \$1,141,044        | \$991,130          | \$46,569               | \$149,914               |
| 2016                                                              | \$1,169,070        | \$1,014,767        | \$18,111               | \$154,303               |
| 2017                                                              | \$1,289,939        | \$1,039,018        | \$18,111               | \$250,921               |
| 2018                                                              | \$1,318,211        | \$1,013,902        | \$18,111               | \$304,309               |
| 2019                                                              | \$1,356,251        | \$1,039,434        | \$18,111               | \$316,817               |
| 2020                                                              | \$1,390,905        | \$1,065,633        | \$18,111               | \$325,273               |
| 2021                                                              | \$1,420,761        | \$1,092,515        | \$18,111               | \$328,245               |
| 2022                                                              | \$1,449,920        | \$1,120,101        | \$18,111               | \$329,819               |

Considering operating revenues and expenses, the improvement in the cumulative financial performance of South Texas Regional Airport is about \$1,725,000 greater than the baseline scenario.

## 6.5 Summary of Business Plan Recommendations

A number of recommendations have been made as a part of this Business Plan, all with the ultimate goal of improving the financial performance of South Texas Regional Airport and helping to attract growth. As guidance for the City of Hondo and Airport Management, the following is a proposed timeline for implementing the recommendations presented in the Management and Policy Action section.

### 1<sup>st</sup> Priority/Immediate

- **Land Use Zoning/Protection:** The City of Hondo should create Airport Hazard Zoning with the goal of protecting the Airport and its neighbors from incompatible uses.
- **Land Release:** The City of Hondo should implement its land release plan by preparing "pre-approved" documents required by FAA and TxDOT.
- **Lease Structure Modifications:**
  - The City should detail specific Security Requirements, Nondiscrimination, and Force Majeure language in all aviation-related leases.
  - The Airport should continue utilizing various lease policies that limit ambiguity, comply with Grant Assurances, and adhere to the regulatory standards of the Airport.
  - The City of Hondo should continue to include reversion clauses in all of its Airport ground leases.



## 2<sup>nd</sup> Priority/Within First Year

- **Airport Security Systems:** Security cameras should be installed at the Airport, providing monitored coverage of the terminal, ramp, hangar, and fueling areas.
- **Branding/Rebranding Activities:**
  - **Website and Social Media:** The Airport should undertake improvements to its website and social media accounts to convey its new branding.
  - **Promotional Brochure:** The City of Hondo should develop a brochure that reflects the Airport's enhanced brand and clearly stated business objectives.
  - **Improved Airport Signage:** The City of Hondo should contract the design and installation of quality directional signage that promotes the enhanced Airport brand.
  - **New Logo Development:** The Airport and City should seriously pursue development of a new logo design that features the historic and progressive character of Hondo.
  - **Marketing Campaign:** The City should implement a focused marketing effort for the Airport that communicates its new brand and outstanding attributes to customers.

## 2014-2022

- **Staffing:** No additional staff are recommended for the Airport until 2015, when an Operations Manager may be needed.
- **Fuel Operation:** The City of Hondo should continue to function as the FBO, operating the fuel concession with City staffing, unless an exceptional offer is made by an FBO.
- **Building Permit Process:** The City of Hondo should continue to link its building permit process to the adopted Airport Hazard Zoning Ordinance.
- **Educational Partnerships:** The City should begin negotiations with South Texas Regional Training Center to expand the program to include aircraft maintenance and other aviation-related courses.

As guidance for the Revenue Enhancement Recommendations, the following priorities are shown:

### Immediate:

- **Rates and Charges:** The Airport should charge rates that reflect fair market value and apply those rates uniformly to all tenants without unjust discrimination.
- **Lease Corporate Hangar:** The City of Hondo should seek a flight training tenant that would use the former U.S. Aviation Academy hangar.
- **Enclose T-Hangars:** The City should enclose all 21 open hangar shades and construct up to nine more T-hangar units over the next 10 years, using grant and debt funding.

## 2<sup>nd</sup> Priority/Within First Year

- **Annual Budget for Marketing:** The City should set aside a budget for Airport marketing each year for outreach to corporate and business aviation.

- **Enclose Conventional Hangar:** The City of Hondo should enclose the area between large hangars at Corrigan Air Center to permit the consolidation of work sites in one location.
- **Attract Aviation-Related Businesses:** The City of Hondo should consider incentives to attract and grow aviation-related businesses at the Airport.
- **Attract Corporate Aviation:** To attract more corporate and business aviation, the City should provide additional conventional hangar space as demand warrants.

#### **2014-2022**

- **Hangar Development:** The City should develop conventional hangars with grant funding where available and as demand warrants.
  - The City should seek hangar development from private enterprise if the funding required cannot be raised through grants and/or borrowing.
- **Airport Amenities:** The City should continue to encourage or provide rental cars, courtesy vehicles, and hotel and restaurant connections.
- **Water Rights:** The City should retain all of its water rights for existing Airport property. These rights should be leased and the proceeds used for the Airport.
- **Mineral Rights:** The City should retain all of its mineral rights for existing Airport property. These rights should be leased to energy exploration and drilling companies for Airport revenue production.
- **Agricultural Land Lease:** The City should continue to lease Airport land for agricultural purposes until other land sale opportunities arise.
- **Railway Expansion:** The City should release Airport land for sale to the Hondo Railway as their expansion needs are identified and finalized.

## Appendix A: SWOT Analysis

## Appendix A

### South Texas Regional Airport SWOT

A SWOT (STRENGTHS/WEAKNESSES/OPPORTUNITIES/THREATS) WORKSHOP was held at the South Texas Regional Training Center on October 11, 2012. A total of 11 professionals representing a range of the Hondo stakeholder base attended the session. The purpose of the SWOT Workshop was to provide an opportunity to better identify and understand the Airport operating environment. In this regard, the SWOT was not a strategy session. Rather, it was the preparatory step toward making strategic recommendations. Thus, the information generated in the SWOT about the Airport's position in its environment can be used to develop follow-on strategies for achieving the Airport's mission. This Business Plan will serve as the vehicle to define these strategies and focus resources on the implementation process which will take place over the next five years.

From a definitional standpoint, a SWOT for South Texas Regional Airport involved the following:

- **Strengths:** Internal attributes of the Airport. These can include Location, Physical/Infrastructure, Managerial, Financial, Political, Brand, Competition, and "Other."
- **Weaknesses:** Internal attributes of the Airport. These also can include Location, Physical/Infrastructure, Managerial, Financial, Political, Brand, Competition, and "Other."
- **Opportunities:** External conditions that may be available to the Airport. These can include such items as Regional Business, On-Airport Business, Funding, Aviation Trends, Branding, and "Other."
- **Threats:** External conditions that may threaten the Airport's viability. These conditions may include Funding, Operational Activity, Local Surface Access, Infrastructure, Brand, Competition, and "Other."

There were five simple rules for the SWOT Workshop itself:

- 1) It is okay to disagree.
- 2) All ideas are potentially good ideas.
- 3) We will honor time limits unless the entire group desires longer sessions.
- 4) What is said at the meeting will not be attributed to a specific person (confidentiality).
- 5) Cell phones should be in the "off" position.

The Workshop began at 12:00 pm and ended at 3:30 pm. Discussion topics included a wide range of issues including, but not limited to:

- Airport Branding;
- Financial Sustainability;



- Airport Development;
- Tourism;
- Future Client Base and Airport Amenities;
- Public Relations;
- Surface Access;
- Airport Services;
- Economic Development

The following sections summarize the discussions held at the Workshop concerning Airport Strengths, Weaknesses, Opportunities, and Threats. Participants were asked to rank their top three items of importance within each category.

## 1. AIRPORT STRENGTHS

**A**IRPORT STRENGTHS ARE CONSIDERED INTERNAL OR INHERENT attributes of the Airport. The following Strengths were identified during the Workshop by participants, in rank order of importance:

- **Geographical Location:** The Airport is 26 miles from San Antonio, 145 miles from the Mexican border, and 165 miles from the Gulf Coast. With this positioning, the Airport is within two major trade routes in and out of the state, and is poised to serve users operating within the business centers of San Antonio. Major rail and truck lines currently run through Hondo, and with nearby interstate access the Airport's geographical location is a considerable strength. The Airport's convenient proximity to San Antonio allows for short drive times for business users, but also maintains enough distance to enjoy open airspace less restricted than the Class C airspace environment associated with San Antonio International.
- **Economic Development Factors:** South Texas Regional Airport is poised to benefit from the various economic factors in the area. With rail and truck routes currently in place, much of the economic infrastructure in Hondo is already established and will prove beneficial to the Airport. From a logistical standpoint, the advantages of intermodal connectivity to both truck and rail supply lines should provide the South Texas Regional Airport with a competitive advantage to attract a wider range of businesses than other business airports that do not have these connections.
- **Airport Expandability:** The South Texas Regional Airport, unlike many airports, has room to grow. The Airport is located on 2,383 acres of land and is not constrained by surrounding development or roadways.
  - The Airport is not landlocked and there are no obstacles to expansion.
  - There are no major noise issues or land use conflicts surrounding the Airport.
  - There is an abundance of land outside Airport property that could be developed to support aviation and other industrial uses.
  - There is ample room on the Airport for hangar development should the need arise.

- **Public Perception:** Though there has been no concerted branding effort on behalf of the Airport, the South Texas Regional Airport enjoys a positive and rich history that the local community embraces and supports. The Airport's past use as a military airbase is a point of pride for many Hondo residents.
  - The Airport is a successful venue for air shows, and attracts visitors from across the country.
  - Original signage for Hondo reading "This is God's Country" is known internationally as an enduring icon that included the military airbase.
- **Political Support:** There has been strong political support for the growth and development of the Airport from the local government. Specifically, there has been a percentage of sales tax specifically allotted for improvement projects at the Airport. In addition to this, support from TxDOT in the form of grant assistance has been used to facilitate improvements at the Airport.
- **Recent Improvement Projects:** In recent years there have been several improvement projects at the Airport. These include several runway and taxiway pavement projects, the adding of fuel services, and the construction of a new terminal building. These improvements have positioned the South Texas Regional Airport to accommodate growth and the potential to function as an economic engine for the community.

#### Other Strengths:

- **Tax Structures:** State and local tax rates can be considered favorable for businesses at Hondo. This is a positive step to enhancing growth in the community.
- **Operational Strengths:** The Airport has instrument approaches that are protected.
- **Fuel Services:** The installation of a fuel farm by TxDOT shortly after their fuel farm construction program began in 2006 is a major improvement that has allowed the Airport to become more competitive within the service area.

## 2. AIRPORT WEAKNESSES

**A**IRPORT WEAKNESSES WERE IDENTIFIED AS A PART of the SWOT workshop process. These are internal attributes of the Airport and are listed below in rank order of importance by the SWOT participants:

- **Leadership for Local Economic Development:** There is an underlying notion that the local government has not been active enough in the planning, development, and attraction of businesses to the area. The Workshop group indicated that the hesitation from City leadership needs to be replaced by more proactive measures to make businesses feel welcome. Without a dedicated initiative to attract businesses to the area, future economic growth will be significantly hindered.
- **Runway Limitations:** Currently, the South Texas Regional Airport has a 6,000 ft. runway, which is able to support mid-size jets that the Airport is trying to attract. This



length is near the minimum requirement for these jets and does not allow for some operations in excessively hot weather. For true 12 month business jet operations it is believed that an 8,000 foot runway would be necessary. This would meet the needs of the Airport's target market and also meet FAA requirements for reserve fuel on flights with long stage lengths.

- **Funding Limitations:** With the future needed improvements at South Texas Regional Airport, there is a need for additional funding that the City is not currently able to supply. One suggestion for City leaders was to leveraging bonds to facilitate the needed developments at the Airport. With added funding sources, plus matching contributions from TxDOT, the Airport should be able to finance improvements that would be attractive to prospective business and corporate aviation users and tenants.
- **Communication of Airport Message:** While overall public perception of the Airport is generally positive, there are no real community outreach efforts being made. This being the case, many Hondo residents are unaware of many benefits the Airport brings to the area. Public opinion often shapes political support and thus, may impact potential future funding for the Airport. Public meetings, workshops, and overall transparency are important components to this communication process. Positive messages about the Airport reflecting the character of the area need to be encouraged, as well the direct and indirect economic benefits of the Airport. To garner support from the community for improvement projects at the Airport, the public will need to know how those improvements will affect them personally.
- **Lack of Corporate Amenities:** In order to attract business operations, the services offered by the Airport will need to be improved. This will allow the Airport to be more competitive within the service area, and generate an increase in activity at the Airport. Amenities that were identified by the Workshop participants that need to be added both on and off the Airport include the following:
  - Pilot Courtesy Cars
  - Ramp Services
  - Rental Cars
  - Taxi Services
  - Lodging
  - Restaurant

Amenities like a restaurant, lodging, and taxi services cannot be provided by the Airport directly, but instead require outside sources of development.

- **Airport Branding:** Currently there are no branding initiatives at the Airport. As such, there is a need to aggressively market the Airport's unique identity and capabilities. The lack of a distinct, cohesive marketing effort to attract customers and to shape public opinion is currently a weakness.
- **Need for Housing:** As the local community is poised for business growth, there is a need

for affordable, quality housing for a growing workforce. The current supply of housing is insufficient for community needs and the support of local economic development initiatives. One impact of the low housing supply is the fact that rental costs have risen to a point that is not feasible for many potential residents seeking work.

- **Aging Infrastructure:** There have been no improvements to the antiquated perimeter infrastructure since it was first put in place while the Airport was a military airbase. Without an adequate infrastructure in place, options for landside improvements and development become limited. The aging lines for water, sewer, gas, electric, and the roadways will all require upgrades in the near future.
- **Limited Ground Access:** Improvements are needed for ground transportation at the Airport. Currently, the signage directing visitors to the terminal building is confusing, due in part to the lack of a single dedicated route for ground transportation access. The aging perimeter road layout was constructed for the former army base, and as such is in need of repairs and general pavement improvement in certain areas. In addition to this, a route dedicated to truck access is needed and should be implemented in the near future.

#### Other Weaknesses:

- **FBO Limitations:** Without an FBO located at the Airport, there are no aircraft maintenance options available for users requiring aircraft repairs. In addition, services such as air taxi, flight training, and aircraft rental are not available. These limited service options represent a limitation when attracting new aviation activity to the Airport.
- **Distance from SAT:** Currently, most corporate customers utilizing San Antonio International Airport (SAT) operate on the north side of San Antonio. If any of these customers considered operating out of Hondo, the 40 minute drive time into San Antonio may be considered a weakness.
- **Staff Turnover:** Recently there have been some staff changes at the Airport. While this does not appear to be a significant long-term problem, as a general rule successful enterprises try to retain employees to cut down on training time and other expenses for new hires.

### 3. AIRPORT OPPORTUNITIES

OPPORTUNITIES THAT EXIST ARE CONSIDERED EXTERNAL CONDITIONS that may be available to the Airport. Generally, these opportunities will require strategies and efforts to achieve. Most opportunities involve the market place or additional services or facilities at the Airport. Participants in the SWOT Workshop identified a number of opportunities available to the Airport in the following rank order of importance:

- **Relocating Tenants:** San Antonio International is currently reconfiguring its general aviation area, and as a result there are certain hangar leases set to expire that are not being renewed. This reconfiguration at SAT represents a significant opportunity for HDO, as potential airport tenants will be searching for alternative general aviation facilities to SAT

and may be receptive to relocating to Hondo. In addition to general aviation users, it is believe that a maintenance facility is subject to be relocated from SAT, and given HDO's current need for an FBO this could be a potential opportunity.

- **Support Businesses:** There is a current opportunity regarding support businesses around the Airport. In the past, a restaurant located at the Airport proved to be a lucrative business that attracted both local and itinerant patrons. Because there is no restaurant at the Airport, this represents an opportunity that could be beneficial to the Airport. Having some form of lodging available to support the Airport could also be seen as an opportunity. In addition to this, there have been discussions about locating an aviation museum at the Airport to reflect the rich history of the area. These opportunities could be beneficial to attracting visitors to the area.
- **Land Development:** Because of the expansive land available for development surrounding the Airport, the City has recognized that there may be a need to hire a professional developer to facilitate improvements to the Airport and surrounding property. Developing this land is a substantial opportunity not only to the Airport, but to the community as a whole.
- **Military Opportunities:** The Air Force and Navy continue to maintain a presence in the area and manage most operations out of Randolph Air Force Base in San Antonio. For HDO, there is an opportunity to provide the military potential support facilities in the form of training or ground storage space. Currently, negotiations are underway which involve potentially renting out a vacant hangar for military maneuvers on a periodic basis.
- **Available Hangar Space:** Currently, there are multiple hangars available for rent at the South Texas Regional Airport. This represents an opportunity for increased revenue production that does not require additional capital investment.

#### **Other Opportunities:**

- **Economic Upturn:** South Texas Regional Airport is poised to benefit from the improving economic climate in the region. Martin Marietta recently bought five limestone quarries in the area, and there are plans to expand the local workforce. This should significantly add to the overall growth of the area, and as such the Airport will have an opportunity to benefit in the form of increased activity.
- **Potential College Partnership:** The Southwest Texas Junior College may present opportunities for the Airport to partner with education. This partnership would most likely be focused more on the academic side, and offer instruction for trades like welding or aircraft maintenance. A partnership of this nature could become a long term benefit to the Airport from both an economic and a public relations standpoint.
- **International Cargo:** There is a need for packaging and transporting low-volume

international cargo in the area. For specialty cargo of this nature, there is a need for viable alternatives to the high costs of San Antonio International's cargo handling services. With the ability to offer cheaper services for these small volume cargo shipments, it is believed that HDO could prove to be an economically viable option for these companies. To benefit from this opportunity, there would need to be improvements made at HDO to improve the Airport's cargo handling capabilities.

- **Energy/Oil Growth:** The potential of oil and gas exploration moving toward and into Hondo could become an opportunity in the future for HDO to provide services to oil companies and the resulting growing labor force. In addition, the large property holdings of the Airport could be used for lease and exploration by energy companies.

#### 4. THREATS TO THE AIRPORT

IN THIS CONTEXT, THREATS TO THE AIRPORT refer primarily to factors that would hinder its potential growth, development, and viability. Threats are generally external conditions to which the Airport is exposed. In some cases, unsolved weaknesses may develop into threats. Threats to Airport viability were listed by SWOT Workshop participants in the following rank order:

- **Missed Opportunities:** The most significant threats facing the Airport are due, in large part, to missed opportunities for growth in the past. These shortfalls have left the Airport without the ability to offer necessary services and corporate amenities such as courtesy cars, ramp services, rental cars, or multiple fueling options. Without these services, coupled with the lack of an FBO to provide aircraft maintenance, the Airport's ability to offer competitive services is diminished. These shortcomings, and the past history of hesitancy to improve, are a potential threat to the Airport if left unchanged.
- **Land Release:** The failure to release and develop land surrounding the South Texas Regional Airport could be seen as a potential threat to the Airport. This could potentially send a negative message to companies considering Hondo as a location for their businesses. Many businesses cannot wait for land to become available for development, particularly when there is an abundance of land ready for their immediate use at other locations. When companies look at a potential site, one of the “deal breakers” can be the time it takes to develop the property. The struggling economy makes this even more imperative, where companies need to break ground and have facilities built as quickly as possible. Many communities realize this and have industrial sites that have utility lines and expedited permitting processes already in place.
- **Airport Competition:** Within the service area, several airports offer services that are currently unavailable at HDO. This represents a threat, in that relocating tenants in the area could gravitate toward these airports in favor of HDO unless the Airport can become more competitive. The Airport's closest competitor, Castroville Municipal Airport, is currently undergoing facility improvements, hangar construction, and is aggressively trying to attract tenants. Also, from a location standpoint Castroville can offer shorter

drive times to San Antonio, which could prove a significant advantage to attracting tenants in search of an alternative to San Antonio International.

- **Administrative Inflexibility:** The current Airport Board's administrative process could be considered a threat, as it is perceived by Workshop participants to be too cumbersome to function quickly and effectively. Decisions that are made must be passed through the City Council for approval, but because of poorly defined areas of input, even smaller day-to-day operational tasks have proven difficult to accomplish. Without more Airport Board autonomy or freedom to make decisions, the Airport's ability to grow dynamically in the future could be significantly hindered.
- **Changes in City Leadership:** With each election, the potential for new leaders with agendas that do not include adequately supporting the Airport could focus funding away from needed improvements. While the currently City leaders have shown strong support for the Airport, the ever changing nature of politics and the uncertainty it brings could be seen as a potential threat to the Airport.
- **Flight School Issues:** Currently, a flight school is not able to function at the Airport, due to the strenuous certification process that is required from the FAA. The inability to host a flight school could significantly limit the Airport's options for future education partnerships with local colleges.

#### Other Threats:

- **Economic Uncertainty:** The looming national debt, ongoing healthcare issues, and political uncertainty could be a potential threat to the Airport if the consequences result in a troubled economy on a large scale. If businesses fail to thrive, and economic growth is muted, the Airport could suffer because general aviation is significantly affected by economic downturns.
- **Security Issues:** There are some potential Airport perimeter security concerns with the current level of police patrols, lack of security cameras, and inadequate fencing available. This lack of adequate security could prove to be a potential threat to the Airport because corporate aircraft owners are highly concerned about the security environment for their based aircraft.
- **Hangar Vacancies:** While it is also potential opportunity, a scenario where vacant hangars are not filled by new tenants could be a threat to the Airport and its finances. There is a large opportunity cost to having vacant hangars as it reflects a lack of activity and overall growth of the Airport.
- **Port San Antonio:** Created from the former Kelly Air Force Base, Port San Antonio is approximately equidistant from the East and West coasts of the United States and at the center of the NAFTA Corridor between Mexico and Canada. The entire development enjoys designation as a Foreign Trade Zone (#80-10). Located on the west side of I-90,

the facility could compete with Hondo intermodal activities. For the South Texas Regional Airport to capture the target market of heavy air cargo operations that could utilize the rail and trucking options at Hondo, it is believed that at least 8,000 feet of runway length would be needed. This competition, as well as Hondo's own facility shortcomings, is perceived as a threat to the Airport's ability to offer cargo handling services.

- **Tax Burden for Aircraft Owners:** With the current tax system, a portion of the based aircraft fees go directly to the City, and there are no tax abatement plans available to aircraft owners.

These perceived threats to the Airport were recorded at the SWOT Workshop. It should be noted that the opinions listed here are those of the Workshop participants and may or may not reflect the opinions of City leadership. For example, the loss of the flight school was ranked sixth in order of importance as a threat to the Airport. That threat probably should have ranked higher because of its negative implication on the future ability of the Airport to derive revenues from flight training.

## **5. SUMMARY**

To summarize the SWOT workshop results, a graphic representation of the process was developed that shows the relationships between the components of the analysis. Figure 1 shows four quadrants, each representing one area of the SWOT. The axes of the quadrants indicate the degrees of flexibility or change for each of the SWOT components. The center of the graphic represents the highest degree of flexibility or ability to change, whereas the outer edges represent the greatest inflexibility or lack of ability to change. For example, events surrounding a possible Economic Upturn are inflexible opportunities that could happen in Hondo regardless of any actions taken at the Airport. On the other hand, Airport Branding is something that can be controlled by the City and as such, it is located near the center or most flexible inner ring.

Components that are located on an axis show that, depending upon how they are addressed, can move from one SWOT function to another. For example, Vacant Hangar Spaces is currently a Weakness and an Opportunity. If the vacancies are filled, then the Opportunity is fulfilled and it is no longer a Weakness. The future income generated by the new tenant will then move into a Strength for the Airport. Similarly, Lack of Public Relations at the Airport is currently a Weakness and an Opportunity. When adequate communication to the customer base and to the community is successfully promoted, it will cease to be a Weakness and ultimately become an Airport Strength. The Lack of On-Airport Services has been classified as both a Weakness and a Threat. Also, the Lack of Nearby Support Businesses has been characterized as both a Weakness and a Threat. Analysis in this business plan will help to establish grounds for each claim. One other item, concerning Flight School Issues, is both a Weakness and an Opportunity.

Overall, the SWOT Workshop highlighted the key issues for the Airport and its operating environment. The Business Plan will use the results to develop strategies for building on





strengths, overcoming weaknesses, taking advantages of opportunities, while minimizing threats to the Airport's future operation.

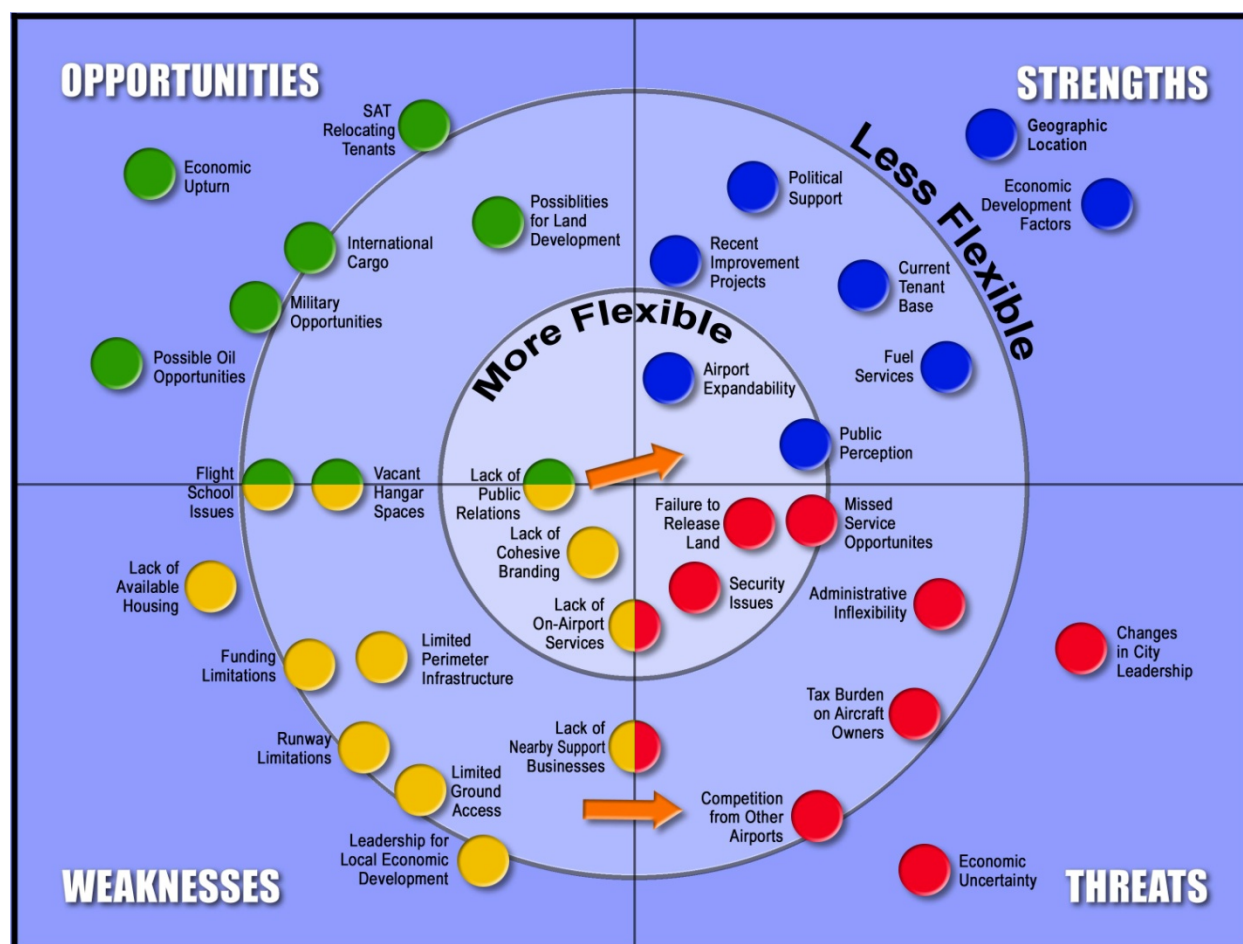


Figure A-1 – SWOT Graphic Illustration