GRA, Incorporated

Economic Counsel to the Transportation Industry

April 30, 2008

Mr. Samuel D. Hinkle, IV
Stoll Keenon Ogden PLLC
2000 PNC Plaza, 500 West Jefferson Street
Louisville, KY 40202

Re: Proposed Airport in Spencer County, Kentucky

Dear Mr. Hinkle:

As agreed, GRA, Incorporated has reviewed the proposal to develop a new public use general aviation airport in Spencer County, Kentucky. This letter reports the findings of our Phase 1 activities. As part of GRA's review, we have accomplished the following tasks:

- Reviewed feasibility study for proposed airport, including reasonableness of forecasts for aircraft operators and based aircraft
- Assessed proposal in light of Federal Aviation Administration (FAA) requirements for funding new general aviation airports
- Examined the market that would be served by the proposed airport
- Assessed the existing market for airport services and airport financial performance at a range of general aviation airports in Kentucky
- Examined the business case for this airport in terms of its likely impact on Spencer County, Kentucky taxpayers

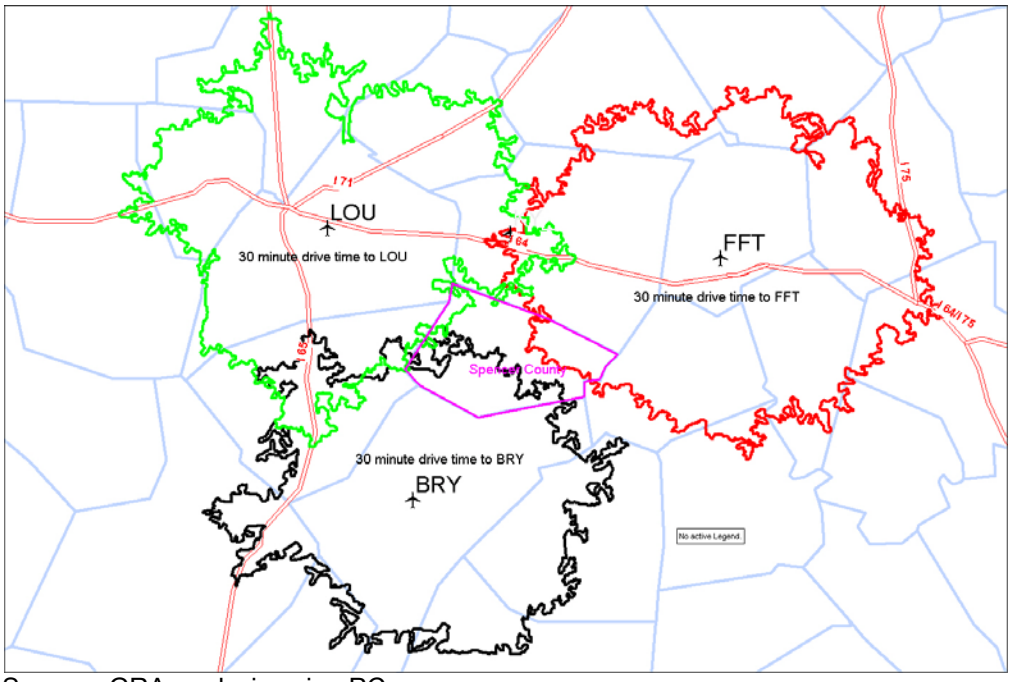
Although the specific site of the proposed Spencer County Airport has not been finalized, much of the analysis does not depend on the exact location of the airport. Rather, the driving issues that determine whether this airport is a good or a bad investment for the taxpayers of Spencer County depends on the likely levels of airport utilization and revenue generation, and whether the revenue generated is sufficient to cover the airport's costs. As will be shown below, most general aviation airports in Kentucky require a subsidy from local government to survive, which represents a cost to taxpayers for many years into the future.

One cannot help but observe that this is just one in a series of proposals to develop a general aviation airport in the counties surrounding the Louisville Metropolitan Area. There have been similar proposals to develop an airport in Shelby County or Oldham County over the last few years. Now, the focus has turned to Spencer County. Some in the aviation community have expressed the desire to develop an airport to offload traffic from Louisville's Bowman Field. It may not be a coincidence that we have seen a succession of proposals for new airports in the counties surrounding Louisville. These are not necessarily designed to satisfy the aviation needs in these counties, but rather are designed to provide additional capacity in the area so that Louisville-based general aviation activities can be relocated. However, the fiscal burden or providing additional capacity should not fall on the taxpayers of Spencer County.

The Airport May Not be Eligible for FAA Grants

GRA examined the 30-minute airport drive times for the general aviation airports surrounding Spencer County. These consisted of Louisville Bowman Field (LOU), Frankfort Airport (FFT), and the Bardstown Airport (BRY). As can be seen in Figure 1, a good part of Spencer County is within 30 minutes of an adjacent general aviation airport, which is a fundamental criterion for entry into the National Plan of Integrated Airport Systems. In other words, a proposed airport has to be at least 30 minutes away from another NPIAS airport to be eligible for entry into NPIAS and to qualify for Federal funds. FAA Order 5090.3C (Paragraph 2-11) speaks specifically to the situation in Spencer County and refers to the proposed airport as a supplemental or additional general aviation airport. It further states that an additional airport is "a proposed airport offering air transportation to a community that does not have an existing NPIAS airport" because almost all of Spencer County is within 30 minutes of drive time from one or more NPIAS airports, it is a community within an existing NPIAS airport.

Figure 1: 30-Minute Airport Drive Times From NPIAS Airports Adjacent to Spencer County



Source: GRA analysis using PCensus

The Airport Forecasts are Overly Optimistic

The economic justification for this airport depends on the future number of based aircraft and the annual level of aircraft operations, because these are what drive the revenue side of the airport. Small airports, such as the one proposed for Spencer County, generally operate at a minimum efficient scale and have largely fixed costs to open the facility and keep it operating. Table 1, on the following page, presents the forecast summary developed by ENTRAN, the consulting firm that has been engaged to do the planning work for the Spencer County Airport. It projects a base load of 62 based aircraft and 33,000 aircraft operations in 2008. It then projects a very slow growth rate in these over time. These forecasts are based on an assumption about how many aircraft owners would relocate aircraft from existing airports in the study area. These are likely to be overly optimistic and it is not clear that the research was conducted in a way to make these projections meaningful. The vast majority of Kentucky airports do not currently have the level of based aircraft and annual operations projected for Spencer County. The suggestion that these well-established airports will be outperformed by a new airport in Spencer County is tenuous at best.

Table 1: Spencer County Airport Forecast Summary

Aviation Demand Element	2008	2013	2018	2023	2028
Based Aircraft					
Single Engine	50	53	57	61	66
All Other	12	13	13	14	16
Total Based Aircraft	*62*	*66*	*70*	*75*	*82*
Aircraft Operations					
Itinerant Operations	16,415	17,411	18,373	19,521	21,015
Local Operations	17,086	18,122	19,122	20,318	21,872
Annual Operations	*33,501*	*35,533*	*37,495*	*39,839*	*42,887*
Pilots and Passengers					
Pilots and Passengers	30,779	32,646	34,449	36,602	39,402
Peaking Characteristics					
Peak Month Operations	3,211	3,405	3,593	3,818	4,110
Design Day	107	114	120	127	137
Design Hour	21	23	24	251	27
Pilot and Passenger Peak Hour	20	21	22	23	25

Source: ENTRAN, 2007

While one might accept the future growth rates as perhaps being somewhat reasonable, it is the base level activity that is problematic. There are 53 Kentucky airports in the latest NPIAS. Table 2 provides a distribution of the Kentucky NPIAS airports in terms of based aircraft and annual operations. It is interesting to note that only ten airports have more than 50 based aircraft and only nine airports have more than 30,000 annual operations. Only seven airports have more than 50-based aircraft and 30,000 annual operations.

Table 2: General Aviation Based Aircraft and Operations at Kentucky Airports

	Based Aircraft					
Operations	**0-25**	**26-50**	**51-75**	**76-100**	**101+**	**Total**
0-15,000	27	6	1	1	0	35
15,000-30,000	1	7	1	0	0	9
30,001-45,000	0	1	1	0	0	2
45,001-60,000	0	0	0	1	0	1
60,001-75,000	0	0	1	1	0	2
75,001-90,000	0	0	0	0	1	1
90,001+	1	0	1	0	1	3
Total	29	14	5	3	2	53

Source: FAA Terminal Area Forecast

Airport Will Not Meet FAA Benefit-Cost Criteria

Even if it did meet entry criteria for NPIAS, we believe that the proposed airport would still fail to meet the requirements for capacity expansion projects using FAA's benefit-cost criteria. FAA requires a benefit-cost analysis for all capacity projects with total costs in excess of $5 million.[1] The FAA guidance contains special provisions for the analysis of new airports and requires a rigorous analysis of the underlying forecasts.

FAA Order 5090.3c para. 2-5 e (1) states that analysis of benefits should follow the methods outlined in the FAA report "Estimating the Regional Economic Significance of Airports," DOT/FAA/PP-92-6 (September 1992). The benefits of a proposed new general aviation airport are the reductions in access time and cost in comparison to the existing general aviation airports. These benefits have to be greater than the full cost of the new airport (appropriately discounted for future benefits and costs). Because of the proximity to other airports in the area, and the geographic distribution of population, most pilots would save very little travel time by using the proposed Spencer County airport.

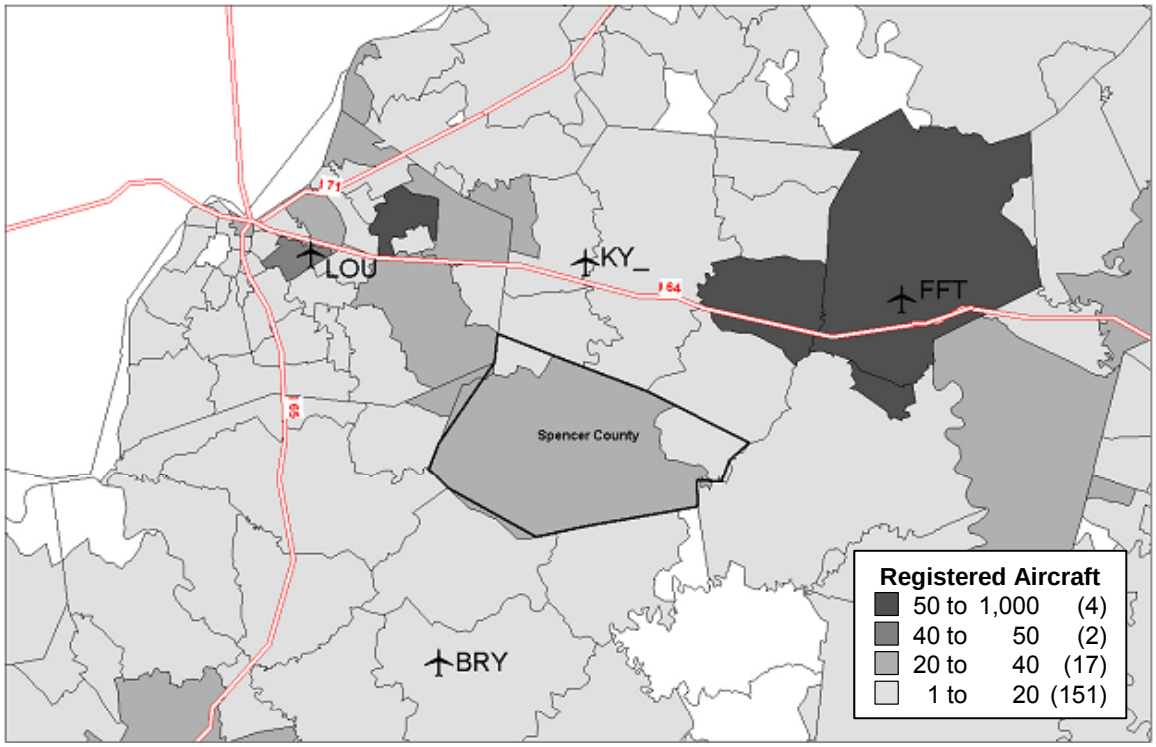
We have reviewed the most recent Kentucky Aviation System Plan.[2] The growth rates forecast in general aviation aircraft operations and based aircraft are very low. As such, any new airport would have to generate a business base by taking traffic from other nearby airports. This would cannibalize traffic from existing airports and negatively impact the viability of the state aviation system. This is a major reason why FAA has a 30-minute drive time standard; they recognize that over-development hurts all the airports in the system, by transferring revenues from existing airports.

There are very small numbers of based aircraft (currently at other airports) and licensed pilots that would see reduced access time and cost to the airport site in Spencer County in relation to competitive airports. Figure 2, on the following page, shows the zip codes with various levels of registered aircraft (some of these may be based at private airports or based at airports not in the local area). The zip codes with the largest number of registered aircraft surround LOU and FFT, not Spencer County. As such, the level of based aircraft and itinerant aircraft operations at the proposed airport would likely not provide benefits to society (in terms of saved airport access time) that exceed the cost of the airport. It must be noted that an entire airport project must show positive benefits and not solely the proportion of the proposed airport that is paid for by FAA-AIP grants, state funds or local funds. FAA does not view the transfer of economic activity from one airport to another as a benefit to society. Therefore, because

[1] 64 FR No. 240, December 15, 1999, pp. 70107 to 70112 sets forth FAA policy on benefit-cost analysis for airport improvements.
[2] Wilbur Smith Associates, *Kentucky Aviation System Plan* (February 1998). Based on discussions with the Kentucky Department of Aviation in March 2008, this plan has not been updated.

the forecasts assume that aircraft and operations will relocate to Spencer County from surrounding airports, any revenues from this shift should not be counted as a benefit of the Spencer County Airport.

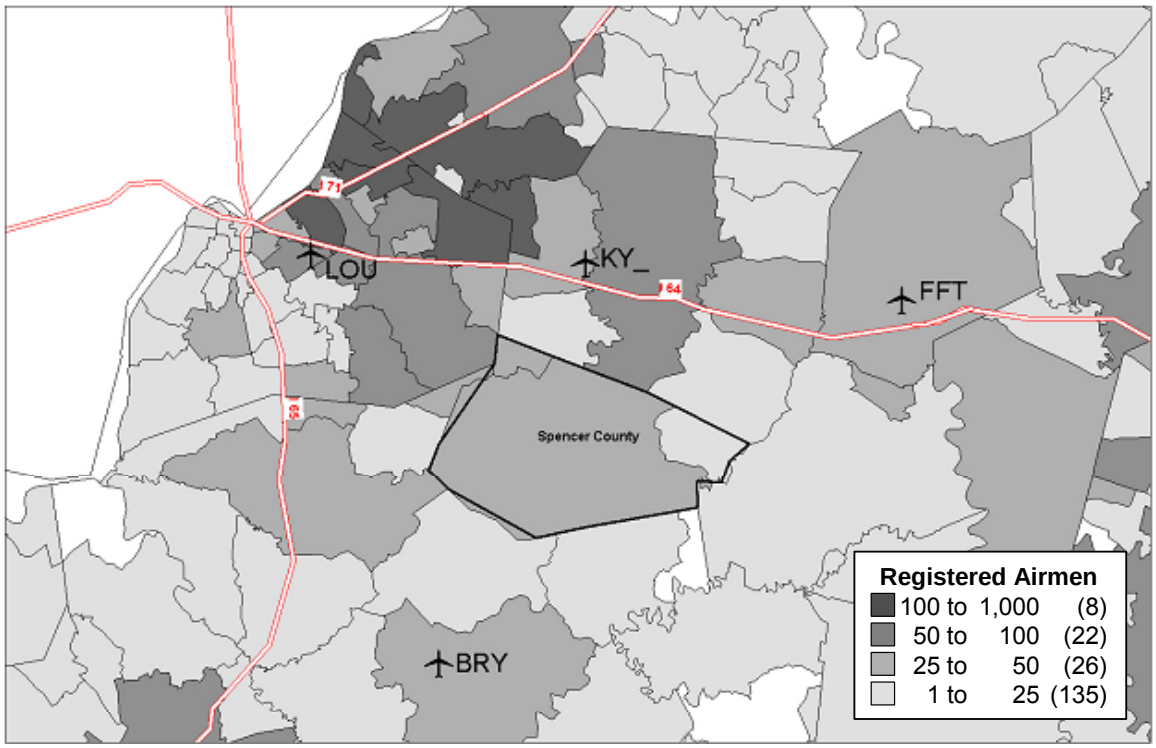
Figure 2: Spencer County Registered Aircraft



Source: GRA analysis of FAA Aircraft Registration Database (1/4/2008)

Figure 3, on the following page, shows information for the number of airmen residing in the area by zip code. Some of those may not fly general aviation aircraft in the local area. Again, the zip codes with the most registered airmen are closest to FFT and LOU.

Figure 3: Spencer County Registered Airmen



Source: GRA analysis of FAA Airmen Registration Database (3/1/2008)

Table 3 shows the current and projected population for Spencer County. It is only expected to grow moderately over the next ten years.

Table 3: Spencer County Population and Projection

Year	Population
2007	16,064
2012	18,501
2017	22,240

Source: PCensus database for Applied Geographic Solutions, Inc. (2007)

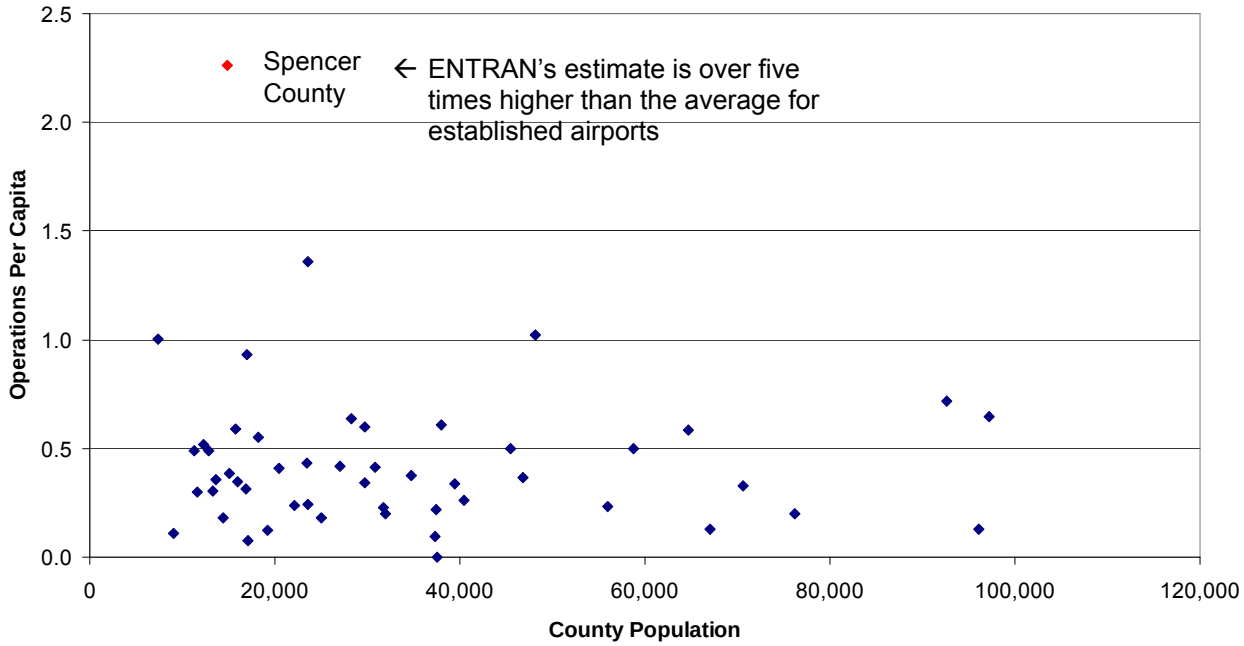
As noted above, the proposed airport would require a formal benefit-cost analysis prepared under the standards set forth by FAA.[3] One of the major considerations in this analysis will be the traffic and based aircraft levels at the proposed airport. The feasibility study of the airport in Spencer County calls for over 60-based aircraft and 33,000 aircraft operations. In fact, as shown in Table 2, most

[3] FAA Office of Aviation Policy and Plans, ***FAA Airport Benefit-Cost Analysis Guidance***, (December 15, 1999).

NPIAS airports in Kentucky have less than 30,000 annual operations and 50 based aircraft. (Enclosure 1 shows the population by county in the state and the NPIAS airports. National Plan airports tend to be in the more populous counties. As shown in Enclosure 2, the majority of counties in Kentucky do not have a NPIAS airport.) We believe the based aircraft and operations forecasts are considerably overstated. Clearly, the forecast is used to paint a rosy but highly speculative picture of the airport's future performance.

Figure 4, below, shows data that support our finding. We calculated the number of operations at each NPIAS airport based on the population of the county it is in. As can be seen, this ratio is generally less than one, with an average of 0.41 operations per capita. The ENTRAN forecast implies that Spencer County will have 2.26 operations per capita, which is much greater than that of other well-established GA NPIAS airports.

Figure 4: Operations Per Capita by County for NPIAS Kentucky Airports, 2006

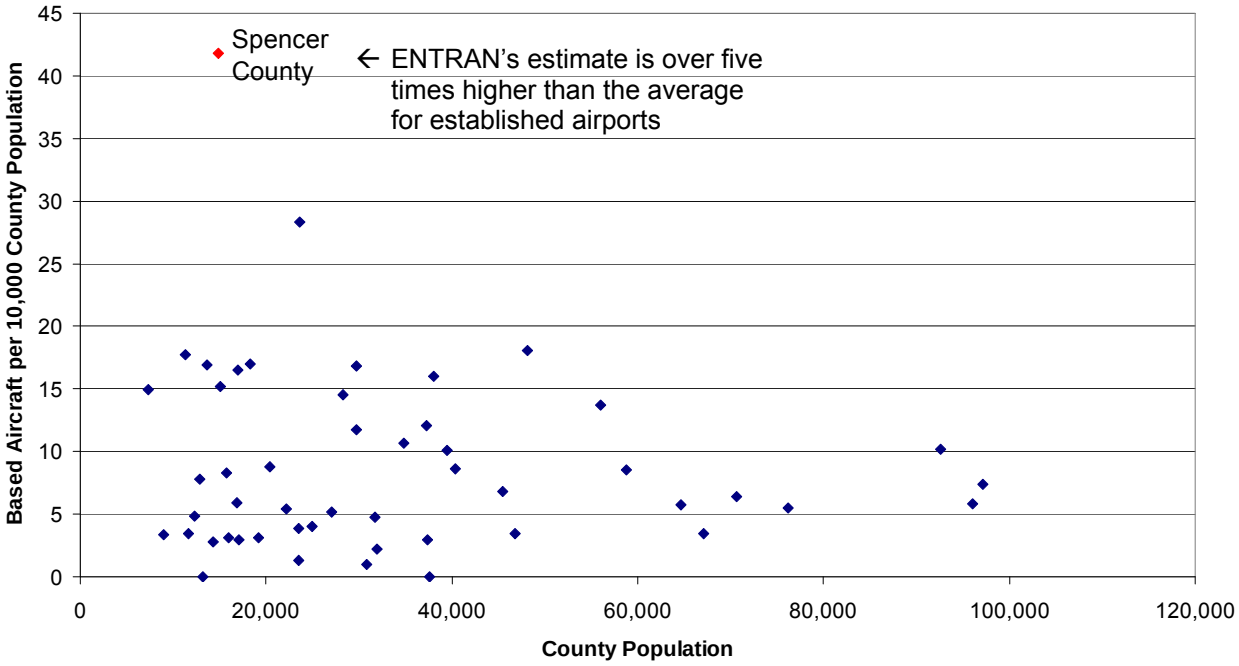


Note: Louisville Standiford (SDF) and Cincinnati (CVG) omitted as they are not primarily GA airports. Louisville Bowman (LOU 0.15 operations per capita) and Lexington Blue Grass (LEX 0.30 operations per capita) omitted because of large county populations.

Source: GRA analysis of airport operations and county population

Figure 5, on the following page, shows the number of Kentucky based aircraft at NPIAS airports per 10,000 residents. These average 15.4 aircraft with the highest values generally under 20 based aircraft per 10,000 residents. However, the ENTRAN forecast suggests that Spencer County Airport will have over 40 aircraft per 10,000 residents, well beyond the ratio observed at any NPIAS airport in Kentucky (Average: 8 per 10,000 population).

Figure 5: Based Aircraft Per 10,000 Population by County for NPIAS Kentucky Airports, 2006



Note: Louisville Standiford (SDF) and Cincinnati (CVG) omitted as they are not primarily GA airports. Louisville Bowman (LOU 4.7 based aircraft per 10,000 residents) and Lexington Blue Grass (LEX 4.4 based aircraft per 10,000 residents) omitted because of large county populations.

Source: GRA analysis of based aircraft at NPIAS Airports and county population.

The Business Case for the Proposed Airport is Not Sound

When FAA examines proposed airport investments, it considers them in terms of meeting FAA goals such as enhancements to system capacity, improved safety and security, increased access to the airport system, supporting state and local plans and improving the environment (FAA Order 5100.39A, page 11).[4] New airports are deemed capacity projects and, as previously noted, FAA has standards that it uses in the development and approval of projects to increase capacity. The feasibility study for the

[4] FAA Order 5100.39A, Airports Capital Improvement Plan (August 22, 2000).

proposed new airport does not meet these FAA standards. A capacity project is defined as:

> "those projects that improve upon an existing infrastructure or create new infrastructure and contain development items that improve an airport or system of airports for the primary purpose of accommodating more passengers, cargo, aircraft operations, based aircraft or increasing the stage lengths of passenger or cargo operations."[5]

Capacity projects are always developed in response to identified needs, and there is no capacity-related need for the proposed airport.

The benefits of the proposed airport—principally reduced access time and cost—for those who use this airport instead of the two existing airports will vary directly with the level of activity. The proposed airport must compete with existing facilities that are located in areas where more pilots live and aircraft are registered. FAA cautions that traffic forecasts for a new airport are very uncertain (Benefit-Cost Guidance, p. 64), and notes that airports located further away from regional population centers have difficulty in capturing business. FAA also notes that fees at pre-existing airports will be substantially lower because much of the capital investment at a pre-existing airport is likely fully amortized, while the proposed airport would have significant capital costs to amortize even with AIP participation. Capital City airport in Frankfort is state-owned and has access to significant funding from the state that is not available to other Kentucky airports. Bowman Field in Louisville is part of an authority that includes Louisville Standiford airport and has access to investment funds. Frankfort already has additional aircraft hangars in the planning phase and Bowman Field also has plenty of ramp space for expansion. Thus, the proposed airport in Spencer County will have to offer considerable incentives to attract based aircraft.

What happens when the proposed airport does not attract the required levels of traffic to pay operating and investment costs? Once built, these costs will become the responsibility of the county and its taxpayers. Figure 6, on the following page, illustrates the level of subsidy for selected GA airports based on aircraft activity. As can be seen, the airports with the least activity receive the most in subsidies and state and local grants. The proposed airport may need subsidies and grants for capital and operating costs, given realistic estimates of based aircraft and operations. Airports are long-lived projects so the total bill to Spencer County taxpayers could be large. Inevitably these subsidies are borne by local taxpayers. All this would be to benefit pilots and others who did not want to travel a few extra minutes to an existing airport.

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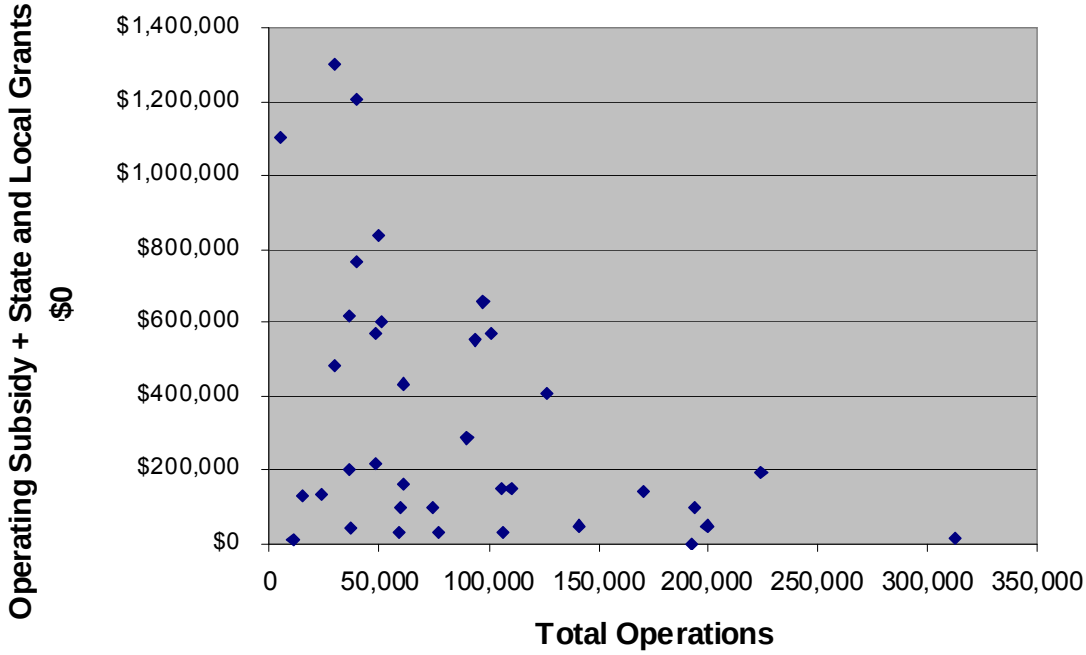
[5] FAA, ***Best Practices Guide: Incorporation of Benefit-Cost Analysis (BCA) Procedures Into the Airport Planning Process***, draft May 6, 2005, p. 2 of 16.

Figure 6: GA Airport Finances



Source: AAAE Airports Rates & Charges Survey
Note: Chart shows operating subsidies and state and local grants that when combined are greater than $0. Three data points are considered outliers (sum of subsidies and grants greater than $1,400,000) and are excluded from this chart.

FAA uses strict standards to protect the public interest when it provides development funding from the Airport and Airway Trust Fund. In general, there are not sufficient funds available to meet all development needs for the existing airports in the NPIAS. While NPIAS does contain some proposed new airports, these are limited to those cases that meet established criteria to be entered into the National Plan. Based on FAA's established priorities for ranking projects to be supported with AIP grants, the proposed airport would not be a funding priority even if it were to enter the NPIAS. For example, the airport would likely fall into the lowest categories of priority as shown in FAA Order 5100.39A, Appendix 5, which gives the fewest priority rating points to the least active GA airports in terms of based aircraft and operations.

Failure to meet FAA benefit-cost criteria has implications beyond eligibility for receipt of Federal grants. More generally, it is an indicator that the proposed airport is not likely to generate sufficient revenues to defray operating and capital costs. In turn, this means that a continuing subsidy from taxpayers is a likely outcome. The proposed airport will be competing with two well-established general aviation airports and the infrastructure and businesses that are present at these two airports.

Assessment of Financial Viability of KY General Aviation Airports

In 2005, GRA visited ten airports in the region and met with airport management, fixed base operators and other personnel. Our review included general aviation airports that are comparable to the proposed airport in Spencer County. It should be noted that the most financially viable airports had distinct service areas that were a sufficient distance from other airports. As noted in Enclosure 3, most of the NPIAS airports in Kentucky meet the 30-minute drive time requirements in terms of distance from other NPIAS airports.

The largest airports were either part of state government (Frankfort), municipal government (Cincinnati Lunken Field) or part of an authority that included a commercial service airport (Bowman Field in Louisville).[6] The airports GRA examined operate under differing governance and ownership models, but all receive funding from local governments or taxpayers.

Based on these interviews and the observed levels of activity at these airports, we believe that they provide further evidence that ENTRAN forecasts of aviation activity at the proposed Spencer County airport are overstated by a considerable degree.

As shown in the analysis below, none of the general aviation airports in Kentucky that we have reviewed produces enough operating income to cover operating expenditures. As such, local taxpayers at the city and/or county level are required to provide a subsidy to the airport to pay normal operating and maintenance costs. Almost all capital costs at these airports are provided via state and federal grants, which also require local matching funds.

GRA does not see how the financial performance of an airport in Spencer County would be better than the airports that we examined. In fact, there are reasons that the proposed airport would likely under-perform its peer group. Most peer group airports are located more than 30 miles from another NPIAS airport, and are the most well-developed airports in their service areas.[7] The proposed Spencer County airport would compete with both Bowman Field and Louisville and Capital City Airport in Frankfort. Thus, it would have to share its market area with two well-established airports, both of which have dedicated sources of outside funding (Standiford Field in the case of Bowman and the State Treasury in the case of Capital City).

GRA's financial analysis was conducted using information provided by each airport or the governmental entity responsible for the airport. These data were obtained

[6] While the airport in Georgetown is now operated by Scott County, it was originally developed as a reliever to Lexington-Blue Grass Airport, with funding from this commercial service airport.
[7] Federal Aviation Administration, *National Plan of Integrated Airport Systems FY 2004-2009*

in response to an Open Records Act request submitted by Stoll, Keenon and Ogden. In general, the airports provided data covering time periods ranging from the late 1990's through 2005. Most airports provided data for the 2001 to 2004 fiscal or calendar year, and these are the ones summarized in the analysis below. Our approach was to determine the total revenues received by each airport in each year and report these by the sources of revenue including: local government, state government, federal government and other grants. We also tracked interest income and operating revenue, which was produced on the airport.

- The objective of GRA's analysis was to understand the composition of the total flow of funds into the airport and which parts came from the sale and/or lease of services and facilities versus transfers from other levels of government. Other grants are those that we could not positively identify as coming exclusively from local, state or federal government. While the revenues cover funds for both operating and capital expenditures, we believe that those that can be identified as coming from local government provide a good measure of the fiscal burden that the airport places on local taxpayers. We averaged the data over the 2001 to 2004 time period for each of the individual airports.

Figure 7 shows the airports included in the financial assessment. GRA visited ten of the airports during May 2005 and interviewed airport managers, fixed based operators and other knowledgeable people at each airport. GRA also analyzed the financial data for 13 of the airports as indicated in Figure 7 below.

Figure 7: Financial Assessment of Local Airports

Location ID	County	City	Facility Name	Total Based Aircraft	Total Operations	Commercial Service Operations	Visit	Financial Data
DWU	Greenup	Ashland	Ashland-Boyd County	45	10,100			✓
BRY	Nelson	Bardstown	Samuels Field	35	10,650		✓	✓
BWG	Warren	Bowling Green	Bowling Green-Warren County Regional	72	62,640	118		✓
DVK	Boyle	Danville	Stuart Powell Field	41	18,000		✓	✓
EKX	Hardin	Elizabethtown	Addington Field	56	12,400		✓	✓
FFT	Franklin	Frankfort	Capital City	87	49,200		✓	✓
27K	Scott	Georgetown	Georgetown Scott County - Marshall Field	61	23,150		✓	✓
HVC	Christian	Hopkinsville	Hopkinsville - Christian County	45	20,440			✓
LOZ	Laurel	London	London-Corbin Airport - Magee Field	77	15,800			N/R
LOU	Jefferson	Louisville	Bowman Field	328	118,290		✓	✓
IOB	Montgomery	Mount Sterling	Mount Sterling - Montgomery County	67	32,155		✓	✓
I39	Madison	Richmond	Madison	42	15,300		✓	✓
SME	Pulaski	Somerset	Somerset-Pulaski County - J.T. Wilson Field	50	29,305			✓
6I2	Washington	Springfield	Lebanon-Springfield	20	5,260		✓	✓
LUK*	Hamilton	Cincinnati	Lunken Field	273	108,904	96	✓	N/R

* In Ohio

Sources: FAA Landing Facility File and GRA, Incorporated

N/R: Not reported or not usable.

All of the airports visited receive some subsidies for operating and capital costs. These included subsidies from local government, in kind services from local government, and matching funds for state and federal grants. We have been able to trace local government subsidies and matching funds for grants, but have not been able to estimate the amount of in-kind services provided to each airport.

Figure 8 shows the average annual revenues by source. As can be seen, local government support ranges from approximately $10,000 a year to over $200,000 per year. Capital City is unusual in that its support comes from the state government because it is owned and operated by the State of Kentucky. Bowman Field in Louisville is supported by the Louisville Regional Airport Authority and receives a substantial input of funds (average of over 900,000 per year) from Standiford Field, which is listed as Other Grant. This means that all of these airports operated with a deficit that had to be made up by the taxpayers.

Figure 8: Financial Support of Local Airports
Annual Average Revenues by Source

Annual Average Revenue	Marion-Washington	Georgetown	Elizabethtown	Madison	Capital City	Somerset-Pulaski	Danville Boyle County
	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Year 2005	Years 2001-2004	Years 2002-2005
Local Government	$123,631	$227,250	$32,221	$27,300	$0	$33,451	$30,700
State Government	$107,626	$4,187	$0	$101,059	$250,000	$1,820,928	$29,631
Federal Government	$0	$127,505	$85,352	$255,728	$81,400		
Other Grants	$0	$0	$145,169	$4,375	$39,700	$0	$0
Total Grants	**$231,257**	**$358,941**	**$262,742**	**$388,461**	**$371,100**	**$1,854,379**	**$165,839**
Interest Income	$4,632	$5,318	$2,092	$1,151	$0	$1,065	$1,784
Operating Revenue	$25,246	$343,366	$46,814	$22,149	$302,324	$166,443	$56,362
Total Revenue	**$261,135**	**$707,625**	**$311,648**	**$411,761**	**$673,424**	**$2,021,887**	**$223,985**

Annual Average Revenue	Bardstown Nelson	Bowling Green-Warren County	Ashland-Boyd	Mt. Sterling - Montgomery County	Hopkinsville Christian County	Louisville Regional Bowman Field
	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004
Local Government	$14,506	$200,769	$8,875	$20,000	$57,802	$0
State Government	$48,574	$2,828	$12,571	$209,881	$29,629	$0
Federal Government	$22,500	$42,976	$0	$75,000	$323,251	
Other Grants	$0	$44,544	$41,045	$0	$0	$932,994
Total Grants	**$85,581**	**$291,117**	**$62,491**	**$304,881**	**$410,682**	**$932,994**
Interest Income	$607	$3,334	$266	$1,105	$28	$0
Operating Revenue	$39,816	$509,766	$171,592	$13,096	$8,819	$1,339,167
Total Revenue	**$126,004**	**$804,217**	**$234,348**	**$319,082**	**$419,529**	**$2,272,160**

Source: GRA analysis of survey data.

Figure 9, on the following page, shows a percentage distribution of revenues by source for each of the airports. If we set aside the Capital City and Bowman Field, both of which receive substantial financial support, the comparable airports receive from 30 to well over 90 percent of their funds from grants. Local government provides up to half of the total grants at these airports.

Figure 9: Financial Support of Local Airports
Annual Average Percent of Revenue by Source

Percentage of Total Revenue	Marion-Washington	Georgetown	Elizabethtown	Madison	Capital City	Somerset-Pulaski	Danville Boyle County
	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Year 2005	Years 2001-2004	Years 2002-2005
Local Government	47.34%	32.11%	10.34%	6.63%	0.00%	1.65%	13.71%
State Government	41.21%	0.59%	0.00%	24.54%	37.12%	90.06%	13.23%
Federal Government	0.00%	18.02%	27.39%	62.11%	12.09%	0.00%	47.10%
Other Grants	0.00%	0.00%	46.58%	1.06%	5.90%	0.00%	0.00%
Total Grants	**88.56%**	**50.72%**	**84.31%**	**94.34%**	**55.11%**	**91.72%**	**74.04%**
Interest Income	1.77%	0.75%	0.67%	0.28%	0.00%	0.05%	0.80%
Operating Revenue	9.67%	48.52%	15.02%	5.38%	44.89%	8.23%	25.16%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Percentage of Total Revenue	Bardstown Nelson	Bowling Green-Warren County	Ashland-Boyd	Mt. Sterling - Montgomery County	Hopkinsville Christian County	Louisville Regional Bowman Field
	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004	Years 2001-2004
Local Government	11.51%	24.96%	3.79%	6.27%	13.78%	0.00%
State Government	38.55%	0.35%	5.36%	65.78%	7.06%	0.00%
Federal Government	17.86%	5.34%	0.00%	23.50%	77.05%	0.00%
Other Grants	0.00%	5.54%	17.51%	0.00%	0.00%	41.06%
Total Grants	**67.92%**	**36.20%**	**26.67%**	**95.55%**	**97.89%**	**41.06%**
Interest Income	0.48%	0.41%	0.11%	0.35%	0.01%	0.00%
Operating Revenue	31.60%	63.39%	73.22%	4.10%	2.10%	58.94%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: GRA analysis.

The performance of comparable airports in Kentucky is an appropriate way to assess the likely financial performance of a new airport in Spencer County. It is clear that this airport, if built, would require continuing funds from the community to pay for its operating costs.

Conclusions

Based on GRA's financial and other analyses, we can conclude the following:

- The proposed airport does not meet the benefit-cost criteria for funding by FAA.
- Even if the capital cost of the proposed airport were largely funded by FAA grants, there still would be substantial costs each year that would fall on Spencer County and therefore its taxpayers.
- Existing airports in Louisville and Frankfort meet the air transportation needs of Spencer County's business community. Both of these airports receive substantial financial support and would likely be effective competitors to an airport in Spencer County for the higher-end, larger aircraft that produce the majority of airport revenues.
- Federal and state funding may make new airports look attractive to communities, but there are continuing costs to be borne by the local tax base

once the airport is built. This is validated by the experience of similar airports in Kentucky.

- FAA is very concerned about maintaining a viable air transportation system and believes that creating excess airport capacity harms the system because it makes each of the airports less able to stand on its own financially.
- The proposed airport will not attract the levels and kinds of operations projected in the feasibility study. It will be a continued burden on Spencer County taxpayers. As such, there is no business case that can be made for building this airport.
- An airport sponsor must sign an agreement with FAA that it will continue as an airport once grants have been received. These "sponsor assurances" represent a long-term contract by the community that will obligate it to continue operating an airport notwithstanding its financial performance.

Summary

In summary, under current FAA guidelines, the proposed airport may not be eligible to enter the NPIAS, which is a requirement for receipt of federal funds. [8] Even if it were eligible for capital grants, the airport will require a continuing subsidy from taxpayers for operating and maintenance costs. The community's air transportation needs can be met from existing airports. The proposed development of another airport in close proximity to these existing airports will reduce the financial viability of the Kentucky airport system.

If you have further questions, please call me.

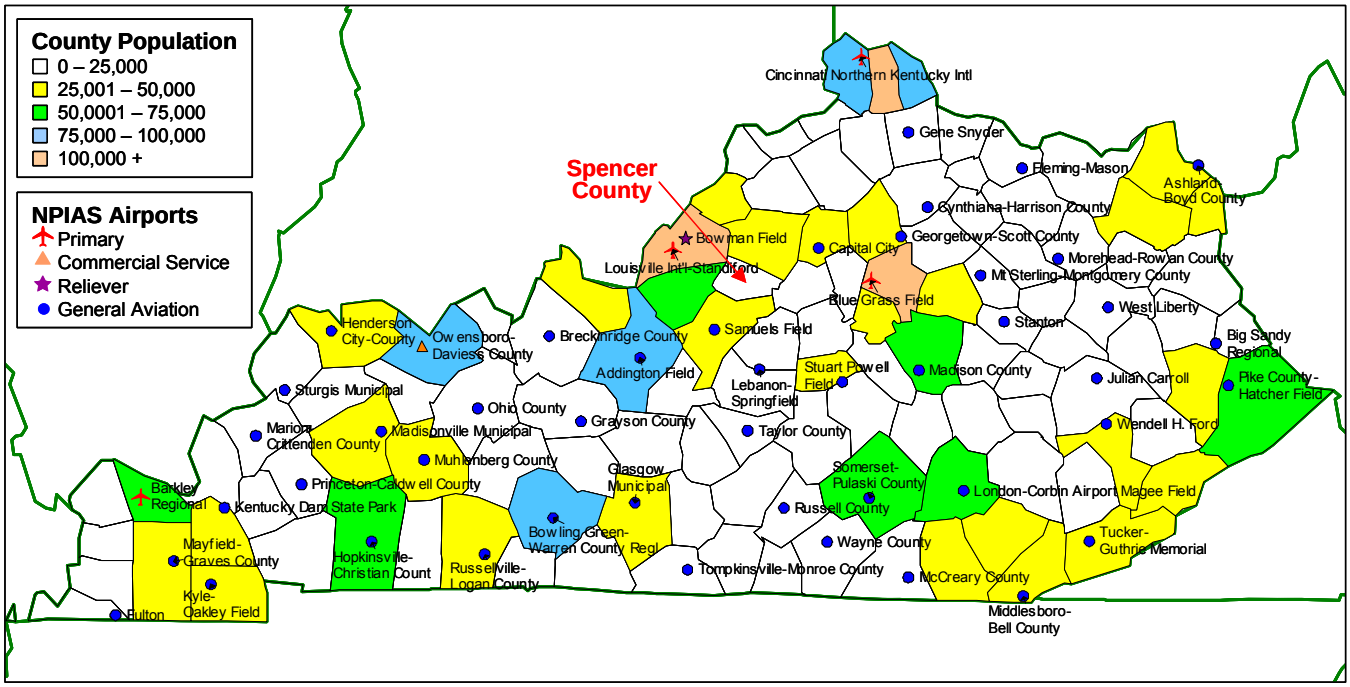
Sincerely,

Richard Golaszewski
Executive Vice President

cc: Mr. Samuel D. Hinkle, IV
Attachments: Population by County
30-Minute Drive Time Between NPIAS Airports
NPIAS Airports by County in KY

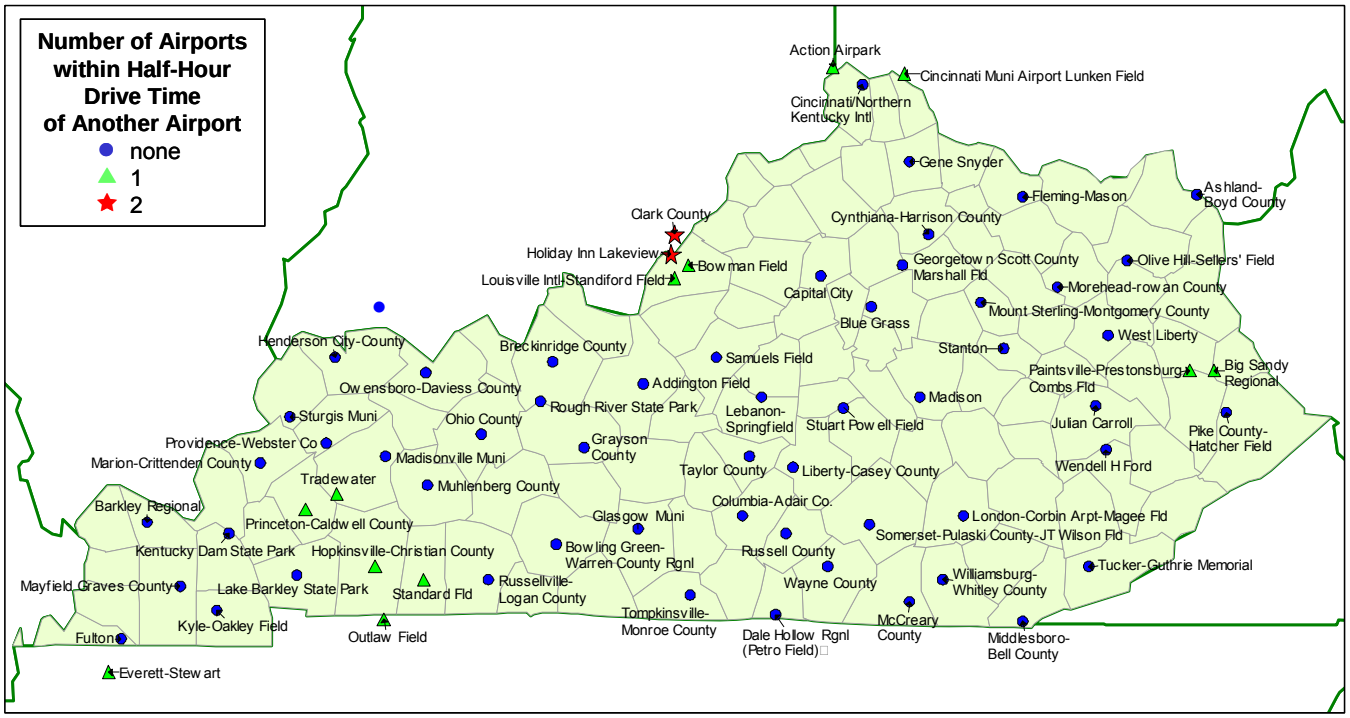
[8] This depends to a large degree on the specific site selected for the airport.

NPIAS Airports in Kentucky – County Map



NPIAS airports are located either in the most densely populated counties or those that are remote from other airports.
Source: GRA analysis of FY 2005 to FY 2009 NPIAS and population by county (prepared June 2005).

NPIAS Airports Within Half-Hour Driving Time of Another NPIAS Airport



Source: GRA analysis of FY 2005 to FY 2009 NPIAS using PCensus drive time data (prepared June 2005).

NPIAS Airports in Kentucky Counties
Over 59 percent (71 of 120) of the counties in Kentucky do not have a NPIAS airport.

County	Population	NPIAS Airports
Adair	17,244	0
Allen	17,800	0
Anderson	19,111	0
Ballard	8,286	0
Barren	38,033	1
Bath	11,085	0
Bell	30,060	1
Boone	85,991	1[P]
Bourbon	19,360	0
Boyd	49,752	0
Boyle	27,697	0
Bracken	8,279	0
Breathitt	16,100	1
Breckinridge	18,648	1
Bullitt	61,236	0
Butler	13,010	0
Caldwell	13,060	1
Calloway	34,177	1
Campbell	88,616	0
Carlisle	5,351	0
Carroll	10,155	0
Carter	26,889	0
Casey	15,447	0
Christian	72,265	1
Clark	33,144	0
Clay	24,556	0
Clinton	9,634	0
Crittenden	9,384	1
Cumberland	7,147	0
Daviess	91,545	1[C]
Edmonson	11,644	0
Elliott	6,748	0
Estill	15,307	0
Fayette	260,512	1[P]
Fleming	13,792	0
Floyd	42,441	0
Franklin	47,687	1
Fulton	7,752	1
Gallatin	7,870	0
Garrard	14,792	0
Grant	22,384	0
Graves	37,028	1
Grayson	24,053	1
Green	11,518	0
Greenup	36,891	0
Hancock	8,392	0
Hardin	94,174	1
Harlan	33,202	1
Harrison	17,983	1
Hart	17,445	0
Henderson	44,829	1
Henry	15,060	0
Hickman	5,262	0
Hopkins	46,519	1
Jackson	13,495	0
Jefferson	693,604	1[P]1[R]
Jessamine	39,041	0
Johnson	23,445	0
Kenton	151,464	0
Knott	17,649	0
Knox	31,795	0
Larue	13,373	0
Laurel	52,715	1
Lawrence	15,569	0
Lee	7,916	0
Leslie	12,401	0
Letcher	25,277	0
Lewis	14,092	0
Lincoln	23,361	1
Livingston	9,804	0
Logan	26,573	1
Lyon	8,080	0
Madison	70,872	1
Magoffin	13,332	0
Marion	18,212	0
Marshall	30,125	1
Martin	12,578	1
Mason	16,800	1
McCracken	65,514	1[P]
McCreary	17,080	1
McLean	9,938	0
Meade	26,349	0
Menifee	6,556	0
Mercer	20,817	0
Metcalfe	10,037	0
Monroe	11,756	1
Montgomery	22,554	1
Morgan	13,948	1
Muhlenberg	31,839	1
Nelson	37,477	1
Nicholas	6,813	0
Ohio	22,916	1
Oldham	46,178	0
Owen	10,547	0
Owsley	4,858	0
Pendleton	14,390	1
Perry	29,390	1
Pike	68,736	1
Powell	13,237	1
Pulaski	56,217	1
Robertson	2,266	0
Rockcastle	16,582	0
Rowan	22,094	1
Russell	16,315	1
Scott	33,061	1
Shelby	33,337	0
Simpson	16,405	0
Spencer	11,766	0
Taylor	22,927	1
Todd	11,971	0
Trigg	12,597	0
Trimble	8,125	0
Union	15,637	1
Warren	92,522	1
Washington	10,916	1
Wayne	19,923	1
Webster	14,120	0
Whitley	35,865	0
Wolfe	7,065	0
Woodford	23,208	0

P = Primary airport
R = Reliever airport
C = Commercial service airport

Source: GRA analysis of FY 2006 to FY 2009 NPIAS and population by county (prepared June 2005).