



The Research Bureau

Worcester Regional Airport Positioned for Take-Off

Report 10-03

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Introduction

Since 1993, The Research Bureau has noted through multiple reports, opinion editorials, and public forums that Worcester Regional Airport (WRA) is a valuable asset for the economic development of the Central Massachusetts region. The Bureau has repeatedly observed that owning and operating an airport is not a core municipal responsibility, and that the City should pursue alternative forms of governing the facility, including sale or lease to the Massachusetts Port Authority (Massport). WRA has languished because it has had to compete with other City departments for scarce revenues to market the facility, to make investments to attract new service, and to hire the technical expertise necessary to function well in the complex aviation industry.¹

Massport has been responsible for WRA operations since January 12, 2000 when the City and Massport negotiated a management agreement under the direction of the Cellucci administration. Since that time, Massport has invested over \$10 million of its own revenues to keep WRA operational. The recently-approved Transportation Reform Act, formulated by the Patrick-Murray administration, set the stage for Massport's acquisition of WRA. Given the City's strong, decade-long relationship with Massport and its expertise in aviation, The Research Bureau fully endorses the Memorandum of Understanding (MOU) authorizing the transfer of WRA, and recommends that the Worcester City Council approve this memorandum between the City of Worcester and Massport. The Research Bureau also encourages the FAA and the Massport Board of Directors to approve this MOU in the interest of the aviation and economic development opportunities it presents for Worcester, Central Massachusetts, and the Commonwealth as a whole.

Terms of Transfer

FAA rules and regulations do not allow the diversion of airport revenues to any non-airport-related use. As a result of these restrictions, the transfer of WRA to Massport could not be a simple purchase and sale agreement. Therefore, the City Manager and his team, working with Massport's leadership and within FAA requirements, structured a transfer with the following terms:

¹ "The Future of Worcester Airport," Report #93-2, May 6, 1993, <http://www.wrrb.org/reports/93-2airport.pdf>.

Annual Budget reports recommending the sale of WRA and other municipal facilities can be found at <http://www.wrrb.org/municfinan.php>.

- The transfer of WRA to Massport will occur by July 1, 2010. At that time, the City will no longer be responsible for the operation, the operating deficits, or the capital expenditures of WRA.
- Massport will reimburse the City \$7.4 million for previous annual operating deficits and debt-service expenses (from previous capital improvements) paid for by the City from FY04 through FY10.
- Massport will pay the City \$3.1 million to retire municipal bonds (from previous capital improvements) which will become due after the transfer.
- Massport will pay the City \$5.0 million as the present value of airport-employee retirement expenses, including employee health insurance, for both existing and future retirees.
- The City will retain ownership of the leased land in the Airport Industrial Park, currently appraised at \$2.6 million, and within the FAA-WRA approved boundaries. By retaining ownership, the City will continue to receive the annual real estate tax revenue (currently totaling \$400,000) from the companies that lease land in the Airport Industrial Park. The City may also pursue additional economic development opportunities there.
- The City will be required to pay fair market value for WRA land it must retain for DPWP Water purposes (water tank) and land it will set aside for public park purposes. These will amount to a combined deduction of approximately \$375,000 from the City's proceeds.
- The City and Massport will split the cost of \$1.45 million for known environmental problems (MGL ch. 21E) at WRA. This will entail a deduction of \$725,000 from the City's proceeds.

Table 1: Summary of the Financial and Property Terms	
2004-2010 Operating Expense Reimbursement	\$ 3.4 M
2004-2010 Debt Service Expense Reimbursement	\$ 4.0 M
Payment for Future Debt Service Payments	\$ 3.1 M
Retiree Expenses	\$ 5.0 M
Subtotal Before Deductions	\$15.5 M
Deduction for Fair Market Value of Water Tank, Park, &	(\$ 1.1M)
Subtotal:	\$14.4 M
Total Payments to City (upon final reconciliation of OPEB escrow)	\$14.4 M
Value of Industrial Park Parcels	<u>\$2.60 M</u>
Total Value to City in Cash Payments & Permanent Land	\$17.0 M

Additional Terms

- Massport will acquire, and the City will be relieved of, all existing Federal and state grant obligations, assurances, and related financial responsibilities.
- Massport will operate and develop WRA per the approved 2008 Airport Master Plan, just as the City would have done if it had retained ownership. Future changes under the Master Plan must be addressed by Massport and the WRA Advisory Committee formed as a result of the MOU.
- The WRA Advisory Committee, under Massport’s governance, will be established to enhance communication among Massport, the City, and the Town of Leicester. To provide continuity, the Advisory Committee will be composed of the seven members of the City’s former Airport Commission (decommissioned as of the transfer) plus two representatives from Leicester. After two years, the Advisory Committee will have four members from Worcester appointed by the City Manager, two appointed from the Town of Leicester, and three appointed by Massport, two of whom must be Worcester residents.

Recommendation for Proceeds

There are a number of potential uses for the cash proceeds from the transfer of WRA, but the approval of the MOU is not contingent on those spending decisions. By statute, the City can only use proceeds from land sales to address capital investments or debt service. The City Manager’s proposal applies the funds to debt service costs to free up other funds to address some costly long-term liabilities. These include allocations to pre-fund the OPEB (Other Post-Employment Benefits) liability, a stabilization reserve account, and required contributions to the retirement system per the specifications of the agreement with Massport. The City Manager has made the following recommendations for proceeds of the transfer:

Table 2: Recommendations for Use of Proceeds	
Transfer to Reserves to Address Remaining WRA Capital Debt Service	\$3.1M
Transfer for Citywide Streets and Sidewalks Construction	\$3.0M
Transfer for Neighborhood Park Improvements (Adjacent to WRA) <i>Spillane Field: \$150,000</i> <i>Logan Field: \$350,000</i> <i>Bennett Field: \$250,000</i>	\$750,000
Transfer for One-Time Stabilization of FY11 Operational Budget	\$2.0M
Transfer to the Worcester Retirement System for WRA Retiree Costs	\$400,000
Transfer for WRA Retiree Health Care Costs (OPEB)	\$1.07M
Transfer for 9C State Cut/ Budget Stabilization FY11-12	\$2.08M
Escrow Deposit for Future WRA Retiree Health Care Costs (OPEB)	\$2.0M

The City Manager’s recommendations for use of the proceeds of \$14.4 million are fiscally sound: using one-time revenues to address short-term capital needs, to cover

pension and retiree health-care liabilities of airport employees, and to cover an operations deficit caused by reductions in local aid.

Benefits of this Agreement to the City of Worcester

- The City is relieved of its annual subsidy of over \$1 million to balance the budget of WRA. The savings can be directed to other municipal operations.
- The City is no longer responsible for the pension and health-insurance benefits of current employees or future retirees of WRA. (When the City divested itself of Worcester City Hospital and Belmont Home, it was still responsible for those liabilities.)
- The City retains the Airport Industrial Park property and the annual tax revenue (currently about \$400,000) associated with the leased parcels.
- The City has worked with Massport for a decade and knows the agency has the capacity to invest in WRA and the management skills to ensure that the airport's economic potential can be enhanced in partnership with Worcester and Leicester.

Benefits of this Agreement to Massport

- As owner of WRA, MassPort has the authority to make the investments and the improvements laid out in the 2008 Airport Master Plan.
- Massport can integrate WRA into its regional transportation plan and ensure its effective use to supplement aviation at Logan Airport and Hanscom Field and to enhance economic development in Central Massachusetts.

The Research Bureau fully endorses this agreement and we again strongly urge that the Worcester City Council, the FAA, and the Massport Board of Directors approve this MOU without delay.

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