

**Juneau International Airport Board
Finance Committee Meeting
March 4, 2020, 2:00 p.m.
Glacier Valley Fire Station Training Room
1700 Crest Avenue, Juneau Valley
Conference Bridge Line (907) 789-2014**

- I. Introduction** (meeting participants).
- II. FY19 Close-out overview. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** At the February 21, 2020, Airport Board Finance Committee meeting, staff presented the FY19 close out budget. FY19 was originally projected to have a deficit of (\$136,000). The anticipated deficit was to be covered with Airport Fund Balance (AFB). The budget closed with slightly less expense and slightly higher revenues. Since last month's finance meeting, a couple of minor changes were made to the ARFF FY19 close-out budget that were not included in the report that the Airport had. Expenses/Revenues are essentially flat, and the projected use of AFB is not required.
- III. FY20 Projected. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** At the February 21, 2020, Airport Board Finance Committee meeting, staff presented the FY20 Projected budget. FY20 Projected showed the use of \$253,200 of AFB to balance.

Again, a couple of updates were made since the last meeting. ARFF contractual increased \$12,000, and Terminal Electrical (Services/Charges) was increased \$25,000 to match historical use. Staff now projects a FY20 deficit of (\$290,200) – Total AFB needed for FY20 is \$290,200.

Finance Committee Motion: *“Approve the FY20 Projected Budget as shown in Attachments #1, #2 and #3, with the use of Airport Fund Balance in the amount of \$290,200 to offset anticipated revenue shortfalls, and forward to the Airport Board for approval.”*

- IV. DRAFT FY21 and FY22 Proposed. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** At the February 21, 2020, Airport Board Finance Committee meeting, staff presented the draft FY21 and FY22 proposed budgets.

A couple of minor changes were made to both FY21 and FY22 Proposed Expense budgets. FY21 decreased by (\$1,200) for ARFF contractual services; and FY22 decreased by (\$1,300) for ARFF contractual service, but Terminal electrical was increased by \$25,000 to match historical use. No further changes have been made to the FY21/22 Proposed Expenses since the February 21, 2020, meeting.

Total proposed Expenses are \$7,896,800 for FY21 and \$8,098,500 for FY22. Overall

Expense increases are \$273,600 for FY21 and \$475,300 for FY22 (compared to FY20). Updated.

FY21/22 Proposed Revenues remain unchanged since the February 21, 2020, Airport Board Finance Committee meeting.

Total proposed Revenues are \$7,374,000 for FY21 and \$7,364,900 for FY22. Overall Revenue decreases are \$14,700 for FY21 and \$23,800 for FY22 (compared to FY20 Updated). Remember, FY20 requires the use of Airport Fund Balance to balance.

FY21/22 Deficits. As mentioned at the February 21, 2020, Airport Board Finance Committee meeting, there are a couple of very distinct cost center deficits that show in the base analysis. This is meant to give an understanding of where the deficits are found in the budget.

Airport Security shows a *deficit* (\$218,000) for FY21 and (\$230,300) for FY22. This is after applying the TSA reimbursement for Law Enforcement Officers and the current revenue for the screened passenger security fees. The portion belonging to Part 121 air carrier would require raising the screened passenger fee from \$1.43 to \$1.96 *under the current ratio* for FY 21 and \$1.99 for FY22 (note: this is higher than stated in the February 21, 2020, Airport Board Finance Committee meeting). In the past, the air carriers requested this fee change (increase) start on May 1, prior to the busy season.

Terminal shows a total deficit of (\$72,500) for FY21 and (\$95,400) for FY22. Terminal Rates have not been adjusted since 2013, and prior to that, 2001 *(2010 recalculated departure lounge and counter to a specific airline matrix while remaining revenue neutral; and 2013 was only a 2% increase for a 12 year span)*. It has been years since the terminal showed a deficit and typically supported the airfield with residual revenue, so rates were not adjusted routinely (concessions help support the terminal cost center, as well). Due to reconstruction and flux in the terminal for FY21/22, staff would like to see where the Terminal costs center ‘shake out’ after construction before any major rate adjustments.

ARFF increases are calculated through airfield cost center, with a further breakdown of the 95/5 allocation (Air Carrier/GA-135). These get calculated through airfield rates/fees. Increases in ARFF costs (Personnel and Travel/Training) are divided in the model according to the allocations. ARFF increases are \$113,500 for FY21 and \$158,400 for FY22.

Airfield shows the remaining deficit of (\$118,800) for FY21, and (\$249,500) for FY22.

In the past, the Airport has been fortunate enough to have finished their operating budget in the black despite predictions of a deficit. Mostly due to a decrease in expenses, but also in part from additional revenues. FY19 finished flat, with essentially no residual revenues adding to the Airport Fund Balance. FY20 is projected to use \$290,200 in AFB to balance. The majority of the FY21/22 proposed budget expenses have remained flat especially for commodities. The increased ‘hard’ costs such as wage increases, insurance, full cost

allocation and contractual are not expenses that ‘could’ decrease. The deficits projected in FY21 and FY22 are very real and must be balanced. In the past, the Airport has submitted deficit budgets using AFB to balance. See Section VI. for AFB availability.

- V. **Budget Deficit Breakdown.** Based on the updates discussed in Section IV, above, the breakdown of the deficit is as follows between the user groups:

<u>FY 21 (\$522,800) deficit</u>	
<i>GA/135 portion</i>	\$261,830
<i>Air Carrier (121) portion</i>	\$260,970
<u>FY 22 (\$733,600) deficit</u>	
<i>GA/135 portion</i>	\$288,960
<i>Air Carrier (121) portion</i>	\$444,640

- VI. **Airport Fund Balance and Operating Reserve.** At the February 21, 2020, Airport Board Finance Committee meeting, Airport staff believed that the Airport Fund Balance (AFB) had limitations (after FY20 close-out) due to Airport Revenue Bonds (for the Terminal reconstruction) and the need for annual debt service or cash flow. Airport staff met with CBJ Finance Controller’s office to discuss the Airport’s Fund Balance and the requirements for the airport revenue bonds. The bond ordinance covenants cover the required reserve and sufficiency through additional bond proceeds. There is no requirement to use AFB for these bonds.

As a reminder, the Airport has also used AFB for Capital Improvement Projects such as the Terminal Reconstruction and Exit Lane System.

Based on the projected FY20 use of AFB, and less current three-month operating reserve, the Airport has approximately **\$1.54M of usable AFB funds** going into FY21/22.

For future budgeting, based on the FY21 proposed budget, the three-month operating reserve would now require \$1.974M, and FY22 would require \$2.02M.

- VII. **Balancing FY21/22 Budgets.**

- a. **Use of Airport Fund Balance.** As discussed in Section VI, above, there is usable AFB funds that could be applied to FY21/22 budgets combined with a phase-in of rates/fees increases. Staff looked at applying AFB to roughly half of the deficit for each year; \$260,000 applied to FY21 and \$365,000 applied to FY22. By doing this, it gives tenants two years to factor increases into their own budgets.

Below, staff has shown the AFB to the bottom line as a general credit (50/50 split between user groups). This is historically how AFB has been applied to budget.

Bottom Line 50/50 Split Credit:

FY 21 (\$262,800) deficit

GA/135 portion \$261,830 - \$130,000 =**\$131,830**

Air Carrier (121) portion \$260,970 - \$130,000 =**\$130,970**

FY 22 (\$368,600) deficit

GA/135 portion \$288,960 - \$182,500 =**\$106,460**

Air Carrier (121) portion \$444,640 - \$182,500 =**\$262,140**

In this scenario, there remains a deficit of (\$262,800) for FY21, and a deficit of (\$368,600) for FY22.

- b. **Discussion of Allocations.** For the past several budget years, there have been discussions about revisiting the allocations that were set approximately 20 years ago. There have been changes since the allocations were set at **85/15**: 85% Air Carrier (121) / 15% GA-135, and ARFF allocation at **95/5**: 95% Air Carrier (121) / 5% GA-135. The ARFF Index went from B to C with the larger air carrier aircraft requiring more personnel and equipment, as well as training; general increases in airfield operations and maintenance needs, as well as more passengers through the terminal. Staff was asked to provide data on operations and passenger traffic. The past six years for aircraft operations are as follows:

Calendar Year	Air Carrier	Air Taxi	General Aviation	Military	Total
2014	8,661	76,237	13,977	581	99,456
2015	9,362	88,598	13,765	376	112,101
2016	9,065	69,705	12,190	399	91,359
2017	9,015	61,595	13,648	504	84,762
2018	9,821	78,247	18,099	656	106,823
2019	9,492	87,373	16,764	539	114,168

Air Carrier is Part 121 operations (Alaska, Delta, etc.). *Air Taxi* includes part 135 runway operations, Part 135 helicopter operations and Part 135 float pond operations. FAA Air Traffic does not differentiate between areas on the airfield.

The past five years for passenger enplanement (only) data is as follows:

Calendar Year	Air Carrier	Air Taxi	Helicopter	Total
2014	276,768	43,149	55,911	375,828
2015	293,811	50,810	58,917	403,538
2016	309,326	47,867	63,249	420,442
2017	310,862	46,718	64,686	422,266
2018	318,715	51,025	70,537	440,277

**2019 traffic counts are not released by the FAA until fall 2020.*

***Note: Total passenger traffic is roughly double the numbers shown since deplanement passengers numbers are roughly equal to enplanement passengers. Deplanement traffic is not reported to the FAA.*

VIII. Rates and Fees Discussion (Attachment #6, #7, #8 and #9). The current Airport Rates and Fees Regulation (07 CBJAC Chapter 10), was last updated July 1, 2016. The Airport has also compiled a comprehensive list of the History of Juneau Airport Rates and Fees showing when rates were established or last changed. These will be available at the meeting for reference. These are important references if the committee looks at raising specific rates/fees to cover corresponding deficit. Staff will also bring a rate change worksheet to the meeting that will allow rate changes to be ‘plugged in’ and calculate the increase to revenues.

There are several ways to address the proposed deficit budgets for FY21 and FY22.

1. Adjust all rates/fees to make up the full deficit for FY21/22;
2. Apply AFB to bottom line (as mentioned above) and adjust all rates/fees for FY21/22;
3. Adjust tenant group allocation (the 85/15 and 95/5 ratios) and adjust all rates/fees for FY21/22; or
4. Combination: Apply AFB to bottom line (as mentioned above), modify tenant allocations and adjust specific rates/fees for FY21/22.

Staff has looked into #4.

Below is the ratio of deficit with applying the 50% split in AFB and an allocation change of **86/14** into the model:

FY 21 (\$262,800) deficit w/\$260,000 AFB *NOTE

GA/135 portion **\$ 99,171**

Air Carrier (121) portion **\$163,629**

FY 22 (\$368,600) deficit w/ \$365,000 AFB

GA/135 portion **\$ 72,142**

Air Carrier (121) portion **\$296,458**

Based on these allocations, staff proposes the attached summary of rates/fees adjustments (Attachment #6). ***NOTE: When these rates/fees increases are plugged into the financial model, there is a residual balance for FY21 that would require an extra \$22,100 in AFB to balance. The FY22 budget balances.**

If the Airport Board Finance Committee approves the proposed budget, which includes use of AFB, change in allocation and increase to rates and fees, the FY21/22 budgets, as outlined in Attachment #7, #8 and #9) could be moved to the Airport Board for approval, and begin the Regulation process for the increased rates and fees (summarized in Attachment #6). The summary is the basis for the regulation change for the Airport Board and public regulation process.

Staff will have models, worksheets availability at the meeting to run different scenarios if requested by the committee.

Airport Staff recommends the following motion:

Finance Committee Motion: *“Approve the Summary of Rates & Fees Regulation Changes, as shown in Attachment #6, for increases to the FY21 and FY22 Proposed Budgets, and forward to the Airport Board for approval, and to begin the regulation process.”*

Finance Committee Motion: *“Approve the FY21 and FY22 Proposed Budgets, as shown in Attachments #7, #8 and #9, with the use of \$282,100 of Airport Fund Balance for FY21, and the use of \$365,000 of Airport Fund Balance for FY22, and forward to the Airport Board for approval.”*

IX. Next Finance Meeting: TBD