Juneau International Airport Board
Finance Committee Meeting
Monday, February 25, 2019, 4:00 p.m.
Alaska Room

I. **Introduction** (meeting participants).

II. **FY18 Close-out overview. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** FY18 was projected to be slightly in the black by $23,800. Expenses came in lower than projected by ($282,747) primarily due to: $130,000 in savings in Personnel (less overtime, charge out to projects and retirement/vacancies); $160,000 and Services and Charges (JPD contractual lower, airfield contracts); while Supplies were slightly higher. Revenues were just slightly lower than projected by ($31,875), the net result was **FY18 finished in the black by $274,672**. This increased our Airport Fund balance at the end of FY18, see Section V, below.

III. **FY19 Projected and FY20 Updated. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** FY19 Proposed budget originally estimated a ($174,300) deficit, and FY20 Proposed budget originally estimated a ($198,900) deficit. The Airport proposed using Fund Balance to balance the budget. Updates to the budget now anticipate a $136,000 deficit for FY19 (slightly lower deficit than originally proposed), and a $234,500 deficit for FY20 (slightly higher deficit than originally proposed). The following discusses the major changes in the budgets.

EXPENSES: FY19 Projected Expenses anticipate an increase of $108,400 (over FY19 Proposed), and FY20 Updated Expenses anticipate an increase of $133,900 (over FY20 Proposed). *Note the changes/increase for FY19 / FY20 Expenses are as compared to the Proposed (Approved) FY19 & FY20 Expense budgets.*

PERSONNEL: A 2% wage increase was negotiated with the MEBA union effective July 2019; estimated increase of $38,000. This also carries into FY20; estimated increase of 42,000. (Note: union negotiation for FY20/21/22 will be underway starting February 2019.) FY19 (Airfield) Overtime is anticipated to be higher by $40,000 (due to weather conditions to-date), and FY20 Overtime has been increased slightly by $20,000. There are also differences in how personnel costs are charged out to projects (allowable by Federal Aviation Administration (FAA)), which anticipates a decrease in the 'manpower reduction' allowance for both FY19 (-$84,100), and FY20 (-130,300). Reduction in manpower allowance results in an increase to Personnel costs.

FY19 Projected Personnel expenses anticipate an increase of $162,100 over FY19 Proposed/Approved Personnel costs; and FY20 Updated Personnel expenses anticipate an increase of $192,300 over FY20 Proposed/Approved Personnel costs.

SUPPLIES: FY19 Projected Supplies anticipate an increase in Airfield Materials & Commodities (runway deicer up $66,400, landside deicer up $10,000), and ARFF Minor Equipment up $30,800 for the ARFF Foam Testing Equipment (approved at the September 2018 Airport Board meeting). FY20 Updated Supplies is up slightly for the anticipated increase/use of runway deicer $42,000.

FY19 Projected Supplies expenses anticipate an increase of $107,800 over the FY19 Proposed/Approved Supplies budget; and FY20 Updated Supplies expenses anticipate an increase of $42,000 over FY20 Proposed/Approved Supplies budget.

SERVICES & CHARGES: Both FY19 Projected & FY20 Updated Services & Charges expenses anticipate decreases compared to the FY 19/20 Proposed expenses. FY19 anticipates a decrease in contractual charges of $48,000 (JPD, terminal electrical contracts). Both FY19 & FY20 anticipate a decrease in repairs by $24,000, and $11,000, respectively; decreases of $40,000/year in water/sewer charges for airfield and terminal due to energy efficiencies (reclaimed water system for washing at SREB) for both years; and fuel and electrical savings of $40,000/year.

FY19 Projected Service/Charges expenses anticipate a decrease of $157,200 over the FY19 Proposed/Approved Service/Charges budget, and FY20 Updated Services/Charges expenses anticipate a decrease of $100,400 over FY20 Proposed/Approved Service/Charges budget.

Total FY19 Projected Expenses are $7,536,100; and FY20 Updated Expenses are $7,623,200. FY19 Projected Expenses anticipate an increase of $108,400 (over FY19 Proposed), and FY20 Updated Expenses anticipate an increase of $133,900 (over FY20 Proposed). **FY19 will require Supplemental Spending Authority for the additional $108,400 anticipated expenses.**

REVENUES: FY19 Projected Revenues anticipate an increase $146,700 over FY19 Proposed; and FY20 Updated Revenues anticipate an increase of $98,300 over FY20 Proposed. *Note the changes for FY19 Projected & FY20 Updated Revenues are as compared to the Proposed (Approved) FY19 & FY20 Revenue budgets.*

STATE REVENUE: Anticipates a decrease of $21,000 in the state aviation fuel share. Staff is still working to collect 100% of the state fuel tax that comes from JNU.

FUEL FLOWAGE FEES (FFF): A decrease in the number of gallons (jet fuel) is anticipated. Air carriers are using more fuel efficient aircraft and tankering fuel (carrying enough in/out of Juneau). Both FY19 Projected & FY20 Updated FFF are down $138,000 compared to FY19/FY20 Proposed/Approved.

LANDING FEES (LF): An increase in the weight of landing aircraft (more of the larger 737-800/900 vs. 400/700) anticipates an increase in LF revenues. Both FY19 Projected & FY20 Updated are up $125,000 compared to FY19/FY20 Proposed/Approved.

USER FEES/SECURITY FEES: A slight increases in jet passenger travel will continue to generate additional security screening passenger fees, as well as the use of the new Jetbridge at Gate 2 (slightly earlier than expected). FY19 Projected anticipates an increase of $26,000 over FY19 Proposed/Approved; and FY20 Updated anticipates an increase of $10,800 over FY20 Proposed/Approved.

RENTALS: New ground leases (less the loss of some small aircraft parking spaces) will see approximately $23,100 of additional rental revenue for FY19/20. Parking lot concession fees are expected to increase by $40,000 for both FY19/20, and other concessions (advertising) anticipating a nominal increase. Air Carrier Terminal rental revenue will be $41,000 higher only in FY19 due to one month of FY18 joint-use rent posted in FY19. FY19 Projected Rentals anticipate being $120,100 higher than FY19 Proposed/Approved; FY20 Updated up $69,800 compared FY20 Proposed/Approved.

INTEREST/MISCELLANEOUS: FY19 will see an increase of $21,100 from the sale of assets (retired equipment), and FY20 will see an increase of $25,700 from interest on the Airport Fund Balance as recalculated by CBJ Finance.

Total FY19 Projected Revenues are $7,400,100; and FY20 Updated Revenues are $7,388,700. FY19 Projected Revenues anticipate an increase of $146,700 over FY19 Proposed; and FY20 Updated Revenues anticipate an increase of $98,300 over FY20 Proposed.

IV. FY19 & FY20 Budget Shortfall, Supplemental Spending Authority Required and Action Items. The FY20 breakdown of the deficit is as follows between the user groups:

FY 20 ($234,500 deficit)
$217,650 GA/135 portion
$ 16,850 Air Carrier (121)

The split between Air Carrier (121) and GA/135 is an 85/15 ratio. The above breakdown shows an inequity of allocations for the two types of operators within the financial model. In other words, the 135/GA still has a deficit in their share of costs regardless of the bottom line of the budget.

Over the past few years, the percentage of deficit has not changed much; the GA/135 portion of the deficit has remained about the same.

As we have seen over the past several years, the Airport has finished their operating budget in the black. FY18 again ended in the black (discussed above). FY19 is still projected to end in a deficit budget, however, less than proposed a year ago.

Additionally, the recent receipt of the FAA Financial Compliance Letter (dated January 2, 2019) could potentially increase revenues with the federal requirement to collect lease rents on a couple of properties not previously collected.

There are two ways to address the proposed deficit budget FY20.

1. First Option: Adjust all, or a portion, of the GA/135 deficit by raising GA/135 fee-specific revenues to balance. To balance FY20 using FFF increase to the GA/135, it would require approximately $0.18/gallon increase (from $.22 to $.40/gal). While this does balance the budget for GA/135 users for FY20, the inequity (credit) to the 121 air carriers is greater and would result in a credit of over $52,600 (this is due to the shared non-signatory fees and how they are allocated), hence, another deficit to overcome for the GA/135 users. This method may become very complex for the amount of the deficit. It may be necessary to change other rates/fees; or revisit the 85/15 ratio in the future.
2. Second Option: Apply Airport Fund Balance and monitor the deficit for the future biennial budget (FY21/22) for rate increases. This seems to be the most reasonable based on the past few years of budget history (closing out in the black). This would mean that the budgets, as presented would move forward using Airport Fund Balance to balance. While FY20 Updated deficit is higher than FY20 Proposed/Approved, FY19 Projected deficit is much lower than the original FY19 Proposed/Approved budget.

In case the Committee wants to explore rate increase options, Staff will bring the worksheet for Rates and Fees increases to the finance working group meeting. This will show resulting revenues that each fee change generates. Staff will also have the worksheets and models so that any fee changes proposed can be manipulated during the meeting.

After carefully assessing**, Staff recommends using Airport Fund Balance to balance both FY19 Projected budget, as well as FY20 Updated budget.** See discussions of Airport Fund Balance, below, in Section V. The Airport Fund Balance can support these deficits. ***With this in mind, user groups should be prepared for future rate increases and plan accordingly.***

Airport Staff recommends the following motion:

Finance Committee Motion: *"Approve the FY19 Projected and FY20 Updated Budgets, as shown in Attachments #1, #2 and #3 (dated February 25, 2019), with the use of $136,000 of Airport Fund Balance for FY19, and the use of $234,500 of Airport Fund Balance for FY20; and request Supplemental Spending Authority from the Assembly in the amount of $108,400, for FY19 projected expense increases; and forward to the Airport Board for approval."*

V. Airport Fund Balance (AFB), Capital Revolving Account (CIP), & Operating Reserve.
(Attachment #6)

With the close-out of FY18 in the black by $274,672, the Airport Fund Balance is higher than anticipated. The Airport recently appropriated the use of $380,000 of Airport Fund Balance for a new exit lane system and the three-month operating reserve requirement for FY20 is now $1.906M.

The Airport Fund Balance takes into consideration forward funded amounts, encumbered amounts, the $1.906M three-month operating reserves as well as the updated use of AFB in the amounts of ($136,000) for FY19 and ($234,500) for FY20. Bottom line, unencumbered AFB shows $3,210,558 available. CIP account remains at $722,346 available budget.

VI. Airport Terminal Reconstruction Project Funding Overview

Airport Terminal Reconstruction Project Funding Overview (Attachment #7)**.** JNU will be taking out a Revenue Bond (through the CBJ) for funding the terminal reconstruction project up front. Once FAA Airport Improvement Project (AIP) Entitlement funds come in (currently three years of entitlements) as well as the multi-year collection of Passenger Facility Fees (PFC9) for match and eligible federal portions of the project, the bond debt will get paid through those sources. The FAA states that revenue bond interest is PFC eligible, so terminal rents do not require increases for the purposes of bond debt interest payments. Current funding picture for the Terminal Project is as follows:

$8,898,000	FAA AIP Entitlements FFY 20/21/22 (estimated at $2,966,000/year)
$6,222,000	*PFC9 (6 years of collections) DOES NOT INCLUDE BOND INTEREST
$5,752,512	GO Bond (remaining portion)
$ 610,759	Sales Tax Terminal Project (remaining from Phase 1)
$ 116,729	Other (Airport local requirement) not identified
$21,600,000	**TOTAL PROJECT COSTS**
$1,400,000	Revenue Bond Interest (15-year, but estimated early pay-out by 7 years)

*PFC9 collections are currently approved (FAA) for $5,983,514. Project costs as well as bond interest would require an amendment to increase the collection amount as follows:

+ $238,486	Project costs to $6,222,000
+$1,400,000	*Bond interest* estimated for forward-funding project
+$1,638,486	Total PFC9 amendment required

PFC9 Terminal collections would need to be increased by $1,638,486 and requires FAA and public approval which bring PFC9 total to $11,601,110.

Another strategy is to plan for an extra year of FAA Entitlement funds (4 years). While this pushes other CIP projects out an extra year, the PFC match availability for these subsequent projects is pushed out even further due to the long-term commitment of PFC funding of the terminal. Using FFY 20/21/22/23 FAA AIP Entitlements decreases the amount of PFCs (approximately $2.966M) needed, as well as the resulting collection time. The AIP entitlements run almost parallel to their PFC match collections. This also means that the bond could be paid earlier and less PFC funds used for bond interest.

Attached is an updated CIP which shows this scenario for the 4th year of Terminal AIP entitlements as well as includes the Bond Interest funds from PFC9. If approved, the PFC9 terminal collection could be reduced by almost three years and outlined as follows:

$11,864,000	FAA AIP Entitlements FFY 20/21/22/23 (estimated at $2,966,000/year)
$ 3,256,000	*PFC9 (3 years of collections) DOES NOT INCLUDE BOND INTEREST
$ 5,752,512	GO Bond (remaining portion)
$ 610,759	Sales Tax Terminal Project (remaining from Phase 1)
$ 116,729	Other (Airport local requirement) not identified
$21,600,000	**TOTAL PROJECT COSTS**

$1,000,000	Revenue Bond Interest (15-year, but estimated early pay-out by 5 years)

*PFC9 collections are *currently* approved (FAA) for $5,983,514. Project costs as well as bond interest would no longer require an amendment to increase the collection amount; rather it would reduce both the collection amount and collection period.

Staff recommends this updated four-year AIP Entitlement approach and an update to the CIP to reflect this.

Finance Committee Motion: *"Approve the updated Airport Capital Improvement Plan, as presented in Attachment #7; using four years of FAA Airport Improvement Program Entitlement funds for Federal Fiscal Years 2020, 2021, 2022 and 2023, and forward to the Airport Board for approval and FAA for program year adjustment."*

VII. Other items for discussion.

VIII. Next Finance Meeting: TBD