Juneau International Airport Board
Finance Committee Meeting
February 21, 2020, 2:00 p.m.
Glacier Valley Fire Station Training Room
1700 Crest Avenue, Juneau Valley

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

II. **FY19 Close-out overview. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)**

FY19 was projected to have a deficit of ($136,000). The anticipated deficit was to be covered with Airport Fund Balance. Expenses came in slightly less than projected ($44,480) due to savings in both Personnel and Personnel related (Services/Charges - contractual). Revenues were also higher than projected by $108,218, largely due to higher Fuel Flowage Fees and Interest Income collected. The net result was FY19 finished in the black by $16,698. This meant that our Airport Fund balance was not used to balance FY19 as projected.

III. ***DRAFT* FY20 Projected. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)**
FY20 was updated last year to show a bottom line deficit budget of ($234,500), using Airport Fund Balance (AFB) to balance.

FY20 Projected Expenses are estimated to be $49,800 lower than budgeted despite increased wages/costs to Personnel (see Personnel discussions in IV. Expenses below). FY20 Projected Revenues are anticipated to be $68,500 lower than budgeted. The bottom line shortage of FY20 revenue to expenses is now projected to be ($253,200). Slightly lower Landing Fees from transient aircraft (based on historical data), lower rents and user fees due to the start of terminal construction and consolidation of space, and slightly lower state/federal revenue all contribute to the lower than anticipated revenues.

Staff projects a FY20 deficit of ($253,200)—this is $18,700 higher than the budgeted draw from AFB; however, $136,000 of AFB was budgeted in FY19, but not used. The additional need of $18,700 to balance FY20 could be used from FY19 unused AFB without tapping further into reserves. Total AFB needed for FY20 is $253,200.

Once this budget is no longer draft, the Finance Committee request Airport Fund Balance to cover the shortage of revenues.

IV. ***DRAFT* FY21 and FY22 Proposed. (See Attachments #1, #2 and #3 for summaries; and Attachments #4 and #5 for details.)** FY21 and FY22 proposed budgets are in **draft**. They both show a significant deficit at this time. For the past several years, staff has projected deficit budgets, but expenses have tended to come in lower, and revenues higher, than projections. The Airport does not expect this to be the case with FY 21 and FY22 budgets.

We expect revenue shortfalls for a variety of reasons. More importantly, the increases to expenses are due to union wage increases, full cost allocations, insurance and Police and ARFF contracts; which cannot be adjusted. FY21 Proposed budget estimates a ($524,000) deficit at this time. FY22 Proposed budget estimates a ($709,900) deficit at this time. The following discusses the major changes in the budget since the FY20 Updated budget.

EXPENSES:

Expenses for FY21 & FY22 show increases in proposed Personnel costs (and related Personnel costs in Services/Charges), and Travel/Training. **The FY21 Proposed Expenses show an increase of $274,800 over FY20 Updated, and FY22 Proposed Expenses show an increase of $451,600 over FY20 Updated.**

PERSONNEL: FY20/21/22 union wage increases come from all three CBJ union groups: Marine Engineers' Beneficial Association (MEBA), Public Safety Employees Association (PSEA) and International Association of Fire Fighters (IAFF). MEBA/unrepresented received a 2% increase in wages starting in FY20 plus a lump sum for the duration until the contract was ratified. The 2% increase is carried into subsequent years with the addition of a 1% increase in FY21, and compounded with an additional 1% increase in FY22 (PSEA and IAFF, outlined below since they show up in Services/Charges for contractual). Additionally, FY20 Health/Wellness (H/W) benefits increased by $780 annually/per fulltime employee (FTE) over FY20 Updated/approved, FY21 H/W increased $1,560 annually/per FTE over FY20 Updated/approved, and FY22 H/W increased $2,400 annually/per FTE over FY20 Updated/approved. Work Comp *decreased* by $19,500/annually for both FY21 and FY22. Between wage increases and health cost increases (less work comp decrease), **FY21 Personnel expenses show an increase of $71,100 over the FY20 Updated budget and FY22 Personnel expenses show an increase of $184,900 over FY20 Updated budget.**

SUPPLIES: Supplies is anticipated to be slightly lower based on commodity usage (sand, chemical, and fewer supplies during terminal construction). **Supplies are anticipated to be lower by $55,600 in FY21 and $50,600 in FY22 (compared to FY20 Updated).**

SERVICES & CHARGES: Major changes to Services & Charges line items are highlighted below. Full Cost Allocation, Insurances, ARFF division charges, Security/JPD and Miscellaneous contract and services account for the projected increase to Services & Charges. **Services & Charges are anticipated to increase by $245,800 for FY21, and by $301,700 for FY 22 (compared to FY20 Updated):**

FULL COST ALLOCATION: The CBJ's interdepartmental (full cost allocation) expenditures were audited/recalculate by a 3rd party (Matrix Consulting Group) in December 2019, to meet federal compliance (OMB part 200) requirements. This ensures proper allocations and allowable expenses are charged out to departments. This meets the compliance issues raised by the FAA in their 2017 financial compliance inspection/report. The calculated cost allocations show **increases** of $40,200 annually for both FY21/22 by (compared to FY20 Updated) for services provided by downtown departments (Law, Payroll, Human Resources, Accounting, etc.); now $372,900/year.

INSURANCES (auto, properties/special *NOTE Work comp decreased very slightly but shows up under Personnel costs*): FY 21/22 Properties and special (airport) insurance increased, as well as auto is slightly higher. The net **increase** for all insurances (excluding work comp) is $51,300 for both FY21 and FY22 (compared to FY20 Updated).

ARFF: The Aircraft Rescue & Fire Fighting (ARFF) budget is proposed to **increase** by $114,700 in FY21 and $159,700 in FY22 (compared to FY20 Updated). The increases are largely due to Personnel costs longevity increase and insurance increases, as well as required (Index C) additional higher level training. Training increases show up in the Travel/Training cost center, below.

AIRPORT SECURITY/JPD: Juneau Police Department (JPD) provides the required Airport Security/Police under a contract. As mentioned above, union negotiated wage increases for FY20: 6% increase for officers, 3% (specialty team officers), 5% (specialty team leader). These are compounded with subsequent fiscal year wages; FY21: 1% increase for officers; FY22: 1% increase for officers. Health insurance has also increased 10% in FY21 and 15% in FY22 (compare to FY20 Updated/approved, as detailed above in Personnel). While these costs have escalated, the bottom line budget increase for JPD personnel contractual is almost flat. JPD budgets are based on projected use of officers and overtime, however JPD bills on actual costs. Actual costs have been slightly lower. Other costs such as insurance have increased for the Security cost center. The bottom line increase for FY21 Airport Security/JPD is proposed to **increase** $37,000, and FY22 Airport Security/JPD is proposed to increase $49,300 over FY20 Updated.

OTHER: Minor increases in contractual services such as USDA Wildlife Biologist (Wildlife Hazard Management Plan), electrical contracts, painting contracts (partial hiatus during taxiway construction), as well as projected increases in a dual maintenance shop facility (wash bay, electrical) will make up the remaining increases seen in the Services & Charges.

UNKNOWN: Another possible budget impact is the firefighting foam (PFAS) contamination outcome and remediation. The Airport does not know the impact at this time.

TRAVEL & TRAINING: Increases to travel/training are due to changes in Index C training requirements. **FY21 Travel/Training is anticipated to increase by $13,500 and FY22 Travel/Training is anticipated to increase by $15,600 (as compared to FY20 Updated**).

Total proposed Expenses are $7,898,000 for FY21 and $8,074,800 for FY22. Overall Expense increases are $274,800 for FY21 and $451,600 for FY22 (compared to FY20 Updated.

REVENUES:

Revenues show a slight **decrease** for both FY21 and FY22. FY21 proposes to be down ($14,700) compared to FY20 Updated and FY22 proposes to be down ($23,800) as the budget stands today. These revenues are down from FY20 Revenues, which already predicted a deficit budget year. Decreases in State/Federal Revenue and rentals revenues are the biggest contributors to the additional deficit as detailed below:

STATE/FED REVENUE: Decreases in the state aviation fuel tax (less gallons/ratio) and the cuts in Transportation Security Administration (TSA) janitorial contract within their terminal space anticipate **decreased** State/Fed Revenue of ($77,200) for FY21 and ($86,300) for FY22 (compared to FY20 Updated).

FUEL FLOWAGE FEES (FFF): Increase in the number of gallons anticipate **increased** FFF revenues of $119,100 for both FY21 and FY22 (compared to FY20 Updated). Projections based on historical and air carrier provided data for each year.

LANDING FEES (LF): Flat to slight increase in the landed weight of aircraft anticipate **increased** LF revenues of $36,400 for both FY21 and FY22 (compared to FY20 Updated). Projections based on historical and air carrier provided data for each year.

SECURITY/USER FEES: This is anticipated to be flat at this time. While a slight increase in jet passenger travel will continue to generate some additional security screening passenger fees, other fee projections are down for a net **decrease** of ($7,200) for both FY21 and FY22 (compared to FY20 Updated).

RENTALS: Rentals are down. Terminal construction has consolidated or lost some rental space while others have displaced to land leases at a lower rental rate. Some rents have been lost by tenants (Harris Air) closing down. Some terminal space will recoup after construction, but not significant. Rentals are budgeted to **decrease** ($94,500) for both FY21 and FY22 (compared with FY20 Updated).

OTHER: Slight increases in miscellaneous income, fines project a **slight increase** of $7,000 for FY21 and FY22 (compared to FY20 Updated).

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.

V. Budget Deficit Breakdown. The breakdown of the deficit is as follows between the user groups:

FY 21 ($524,000) deficit		Terminal / Airfield ratio
GA/135 portion	$261,890	$10,875 / $251,015
Air Carrier (121) portion	$262,110	$61,625 / $200,485
FY 22 ($709,900) deficit		Terminal / Airfield ratio
GA/135 portion	$285,275	$10,560 / $274,715
Air Carrier (121) portion	$424,625	$59,840 / $364,785

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 with the Air Carrier (121) showing little to no deficit. This is no longer the case. Nor is it strictly airfield cost center anymore. Total deficit by cost center is:

Terminal: FY21 ($72,500) FY22 ($70,400)
Airfield: FY21 ($451,500) FY22 ($639,500)

These different ways of analyzing the deficit are important for how we look at balancing the proposed deficit budget.

VI. 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. 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 will have a financial model available at the meeting to look at changes in allocations as directed by the committee.

VII. Rates and Fees Discussion. 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 a couple of very distinct cost center deficits that show in the analysis.
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 $1.75 *under the current ratio* for FY 21 and $1.78 for FY22. In the past, the air carriers requested fees changes (increases) start May 1, prior to the busy season.

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 $114,700 for FY21 and $159,700 for FY22.

Terminal shows a total deficit of ($72,500) for FY21 and ($70,400) for FY22. The breakout, as shown above is GA/135 at $10,875, and Air Carrier (121) at $61,625. Terminal Rates have not been adjusted since 2013, and prior to that, 2001 *(only a 2% adjustment except 121 departure lounge and counter which were recalculated to a specific airline matrix while remaining revenue neutral in 2010).* It has been years since the terminal showed a deficit and typically supported the airfield with residual revenue.

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. 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. The Airport has expended much of their AFB so use of those funds are limited. Capital Improvement Projects such as the Terminal Reconstruction and Exit Lane System have used AFB.

VIII. Airport Fund Balance & Operating Reserve. At the August 2013 Finance Committee meeting and the September 2013 Airport Board meeting, the Airport created a three-month operating reserve through the Airport Fund Balance. This would be revisited each budget cycle to ensure the revenue surplus was maintained at the three month total. Based on the FY21 proposed budget, the operating reserve in the fund balance would now require $1.974M.

Finance department staff will be on hand to answer any questions on the calculations of Airport Fund Balance or other CBJ budgetary questions.

IX. Next Finance Meeting: TBD