Juneau International Airport Board
Finance Committee Meeting
February 9, 2021, 5:00 p.m.

Zoom: https://juneau.zoom.us/j/91688435330?pwd=Z0g3R1Z4YXdrNzVtalJacDFaSUUydz09
Or
Dial: 253-215-8782, Meeting ID: 916 8843 5330

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

II. **Historical Model Review and Allocations Revisited (Attachment #1, #2, #3, #4).** In response to questions about the Airport's Financial Model and allocations of land leases changes in the spring of 2020, the Airport reviewed historical development of the model/allocations, and redeveloped the models from 2012 – 2020 based on actual expenses and revenues.

General Model Recap/History:
In 2004-2005, the JNU Airport began working with a new financial model. Revenue and expense allocations were negotiated and set/approved by the Airport (Finance Committee). Staff summarized these breakdowns as follows and as attached:

Attachment #1. *Non-Airline Revenue (NAR) Breakdown*. These are the revenues that are subject to the 85%/15% user group allocation. The NAR revenues *do not include* the direct credits to the air carrier user groups (such as Landing Fees [signatory], Fuel Flowage Fees [signatory, both user groups], jet bridge revenues, security screening fees [new fee as of 2014], commercial aircraft parking [large/small]).

Attachment #2. *Expenses Breakdown.* This shows the breakdown of the expense cost centers (airfield, terminal, ARFF, terminal, security, etc.) and how they are allocated in the model. For example: Airfield includes not only all airfield expense, but also 50% of admin, landside, engineering, security (other non-officer/TSA reimbursed), as well as capital and reserves if budgeted.

Attachment #3. *Airfield Expense Allocations.* This shows the allocated breakdown of these two major cost centers, as negotiated. The airfield expenses are allocated at 85% large (121) air carrier user group / 15% small (135) carriers and general aviation user group; and the Aircraft Rescue and Fire Fighting (ARFF) expenses are allocated at 95% large (121) air carrier user group / 5% small (135) carriers and general aviation user group.

It is important to understand that Airport financial models are set up in one of two established methodologies for rates and charges models: Compensatory and Residual. The compensatory method is *usually applied to terminals*; the airlines pay for the space they occupy. The rate is derived by dividing all terminal expenses by the terminal area. Under the residual system, rates are set for the airport to break even; excess funds are carried forward as rate reduction or rate increase to offset the difference. JNU Airport is essentially a *hybrid-Compensatory*; that is, all cost centers (not just terminal) fall into rate model and rates/fees adjusted based on proposed budgets. The Airport's over collection of revenues (commonly referred to as Airport Fund Balance (AFB)) have been used for: capital projects, emergency repairs, the established three-month operating reserves (rather than built into the budget) and to offset rates/fees increases based on proposed revenue shortfalls (present a balanced budget). [Note that the Airport's three-month operating reserve also served as the State PERS retirement shortfall share for the Airport at one point so as not to have to carry an additional reserve.]

Land Lease Change/Model Impact:
In the spring of 2020, the FY21/22 budgets were projected to have deficits of $522,800 for FY21, and $733,600 for FY22. COVID19 impacts were unknown and hard to predict, so the Airport Finance Committee decided to stay the course with the proposed budget for both years.

At the March 12, 2020, Finance Committee meeting, the Committee passed a budget which: 1) Applied $282,100 in AFB to FY21, and $365,000 in AFB to FY22; 2) changed user group allocations from 85/15 (121 carrier/GA-135 users) to 86/14; and 3) applied several rates and fees increases to both FY21 and FY22 for the balance after applying AFB and allocation changes. Staff was also asked to come up with alternate budget balancing suggestions to bring before the Airport Board, including use of AFB for all of FY21.

Staff reviewed the model in-depth while working on fee increases in the model. During the review, staff recognized that land lease revenues were still lumped as one revenue and allocated at 85/15. The model was set up to allow for separation of land lease types by user groups at a future date, but it had not been reassessed since the allocations were negotiated. While this was how it was originally set up in the allocations (above), it became apparent that there were significant changes within the respective user groups and that this should be separated out. Prior to the March 2020 Airport Board meeting on the budget, staff adjusted the *'proposed'* land lease revenues (based on current leases) in the model: GA/135 users, 121 users, and revenue neutral non-aviation users (landside leases allocated at the 85/15 split). The result for FY21/22 budgets showed that the deficit was on the large carriers (121) users, while showing a credit on the small users (135/GA):

85/15		
FY 21 deficit	**522800**	
GA/135 portion		-125740
Air Carrier (121) portion		648540
FY 22 deficit	**733600**	
GA/135 portion		-98610
Air Carrier (121) portion		832210

Upon presenting the information, the Airport Board approved the budget bottom line, using $522,800 in Airport Fund Balance for FY21, approved proposed rates/fees increases for FY22 budget (to balance); and agreed to adjust revenue shortfalls at a later date for both years using airport operating reserves. The Board also acknowledged that going into COVID, the budget (revenues) and operations in general would have a lot of unknowns.

The Board also asked staff to look into the model for historical user group inequities, based on the land lease allocation findings.

Two things came out of this: The fact that the model is not user friendly, and that a review of the model allocations should be done.

In December 2020, the Airport contracted with Frasca & Associates LLC (Frasca) to update the Airport financial model. This process is underway for a new user-friendly model. Part of that process reviews the current model set-up. Frasca did not find anything out of line in the model, but found it was onerous to work, follow and update. Frasca will continue their model development for review by the Finance Committee once it is ready. Since any updates to the FY21/22 budgets will not require rates/fees adjustments, the new 'model' work can continue outside of the budget process (to be discussed below) and in coordination with revisiting allocations.

In the fall of 2020, staff began assessing the history of model allocations, historical financial models and recalculated the reports by breaking out land leases from 2012 -2020 budgets into 121/SIDA, 135/GA and landside revenue neutral (85/15 split). **Attachment #4** summarizes the FY2012-2020 year end allocations based on the breakout of the land leases.

Summary Findings:
This is a very simplified breakdown of fiscal year operational expenses and operational revenues. It does not include other accounting such as three-month operating reserves, contributions for capital projects (i.e., $800,000 the north terminal for local match), and does not reflect the full governmental accounting in the Comprehensive Annual Financial Report (CAFR). It is not a complete financial picture of the Airport financials. Fund Balance is not a line in the sand.

Furthermore, while the Airport only looked at reallocating land lease revenue calculations for this exercise, the model, as a whole, should be revisited: all allocations including the 85/15 airfield split and the 95/5 ARFF split, since these were all negotiated at the same time (along with all the percentage allocation of revenue, Attachment #1). The timing of revisiting the allocations with developing a new model is perfect for this.

Staff presents this as informational only in response to the Airport Board request. Staff recommends review and renegotiation of allocations, if warranted, during a (near) future Airport Finance Committee work group to coincide with the new financial model development.

III. FY20 Close-out Overview. (See Attachments #5 and #6 for summaries; and Attachments #7 and #8 for details.)

FY20 was projected to have a deficit of ($290,200), and was prepared to use Airport Fund Balance. COVID was also expected to have an unknown impact on FY20 and thereafter. Until COVID, operational expenses and revenues were on track, with revenues looking solid until April 2020. Revenues were decreased in almost every sector including Landing Fees, Fuel Flowage Fees, Security Screening Fees, concession fees, rentals, etc. April 2020 saw operations/enplanements decreased by 95% with just slight improvements through June. In April 2020, the Airport received a CARES Act grant of $21,736,343 for operational assistance for up to four years (from date of grant award). FY20 required a $724,664 draw-down on the CARES Act grant to balance FY20. No Airport Fund Balance was required.

The net result was FY20 finishing flat at $7,466,591 (operational expenses/revenues) with the CARES Act funds applied.

IV. FY21 Projected/FY22 Revised Budgets. (See Attachments #5 and #6 for summaries; and Attachments #7 and #8 for details.) FY21 and FY22 were both approved as deficit budgets. The Airport Board approved the use of $522,800 of Airport Fund Balance to balance FY21, and proposed increasing rates and fees (and a small amount of AFB) to balance FY22. Impacts from COVID would also have an effect on the FY21/22 adopted budgets that would require revisiting FY21/22.

A. Expenses:
Expenses for FY21 Projected and FY22 Revised anticipated changes. The FY21 Projected Expenses show *an increase of $520,600* over FY21 Approved, and FY22 Updated Expenses show an *increase of $108,800* over FY22 Approved. Major highlights:

PERSONNEL: Both FY21/22 Projected/Revised budgets propose decreases in Personnel. Staff vacancies that will either not be filled, be delayed in filling, or use contract services for specific services (see Commodities/Services, below) anticipates *a decrease of $319,200 for FY21, and a decrease of $266,800 for FY22.*

TRAVEL/TRAINING: Remains relatively flat.

Note: Commodities/Services consolidates what was formerly two categories: Supplies and Services & Charges.
COMMODITIES/SERVICES: There are a few changes to Commodities/Services that have increased the bottom line for FY21/22. *Commodities/Services are anticipated to increase by $520,600 for FY21 Projected, and by $108,800 for FY22 Revised:*

PFAS: This is Phase 2 of the PFAS testing/monitoring. While this is a federal requirement for Airport's nationwide to test for PFAS contamination on site (soils and groundwater), the 'cleanup' has yet to be determined or funded. The contract cost for Phase 2 additional wells, testing and monitoring is *$196,900 for FY21*. This will be tracked in case of future federal funding or insurance coverage.

Repairs: Various repairs in the Terminal (Bag belt conveyor system) and Airfield (sewer pump, heat pump repair, fuel farm lights, loader tires) increase by *$130,600 for FY21*; and *$30,000 for FY22.*

Contractual/Services: Disadvantaged Business Enterprise (DBE) federal program *increase $55,000 for both FY21 and FY22*; Financial model contract *increase $25,000 for FY21*; airfield paint contractual carry over from FY20 (not paid in FY20) show up as *increase $124,600 for FY21*, actual JPD officer costs *decrease $19,000 for FY21*; misc. increases for Daikin heat pump maintenance contract, runway temperature data reporting, wildlife contract increases, etc., anticipates an *increase of $79,100 for FY22*; while projected actual ARFF contractual anticipates a *decrease of $38,000 for FY22*.

Total Updated Expenses are $8,096,700 for FY21 Updated and $7,941,600 for FY22 Revised.

B. Revenues:

Revenues are anticipated to have a marked **decrease** for both FY21 and FY22 due to COVID impacts on travel. FY21 Projected revenues are anticipated to be down ($2,320,900) from FY21 Approved, and FY22 Revised revenues are anticipated to be down ($1,988,300) from FY22 Approved. These do not include the use of CARES Act funds for tenant rent abatement (tracked separately). Major highlights:

Decreases in revenue are projected in almost every revenue sector:

RENTS: This projection does not include the rent abatement. Most decreases are from losses with concession income (parking lot, rental cars, food/beverage, etc.). Rents are projected to decrease ($653,200) for FY21 Projected; and decrease ($385,500) for FY22 Revised.

LANDING FEES (LF): Decreased commercial air carrier operations means decreased landing fees. LF are projected to decrease ($787,100) for FY21 Projected; and decrease ($727,600) for FY22 Revised.

FUEL FLOWAGE FEES (FFF): Decreased operations for all commercial operations and general aviation means decreased fuel flowage fees. FFF are projected to decrease ($521,200) for FY21 Projected; and decrease ($471,900) for FY22 Revised.

SECURITY/USER FEES: Decreased commercial air carrier operations means decreased security fees (SF). SF are projected to decrease ($311,400) for FY21 Projected; and decrease ($355,300) for FY22 Revised.

MISC./OTHER: Decreases in miscellaneous income (fines, state share of fuel revenues) from decreased operations. Misc./Other Revenues are projected to decrease ($44,500) for both FY21 Projected and FY22 Revised.

Total Revenues are anticipated to be $5,053,100 for FY21 Projected, and $6,103,600 for FY22 Revised budgets. CARES Act funds is planned to be drawn for both fiscal years.

C. FY22 Rates & Fees Increase Cancelation,

In March of 2020, the Airport Board approved the Finance Committee's motion to increase several Rates & Fees in order to balance FY22. The increases equated to a little over $700K in additional revenue at that time. Due to continued COVID financial impacts to tenants, staff recommends cancelling the FY22 Rates & Fees increases, and allow CARES Act funds to cover FY22 Expenses not covered by FY22 Revenues. Staff has presented the estimated revenues, above, without those increases.

D. Rent Abatement.

At the July 16, 2020, Airport Board meeting, the Board approved to allow tenant rent abatement: "*Approve to accept applications from commercial aviation tenants/subtenants consisting of*

Part 121 air carriers, Part 135 air carriers and commercial aviation support operators (FBO, fuel farm, maintenance facilities, etc.) for rent abatement of fixed rate land lease, terminal lease and aircraft parking/tie downs at the Juneau International Airport; for an initial one-year period from July 1, 2020 through June 30, 2021; and re-assess thereafter for additional abatement period."

FY21 Revenue Projections do not reflect the rent credit to tenants. The credits are tracked separately for CARES Act funds. FY21 rent credits to tenants total $1,150,553 to-date. As approved by the Board, a re-assessment for additional abatement period may be considered. Staff recommends that this abatement, as approved on July 16, 2020, be allowed to continue for the FY22 budget.

V. CARES Act Funds Summary.

In April 2020, the JNU Airport received $21,736,343 in Federal CARES Act funds to help offset expenses due to lost revenues from COVID impact on travel. The funding may be used over the four-year grant period and is drawn from the grant with supporting expenses. The grant amount was determined by the Federal Aviation Administration based on each airport's financials on record (from federal Airport Improvement Program grant applications), established formulas and that no grant may be more than four times that airport's operational expenses. The grant may also be used for airport bonds/interest during this time.

A sample breakdown of CARES Act fund was presented as follows:

$14M	Airport revenue supplement/COVID expenses
$3.1M	CBJ GO bond debt on Terminal *(reimburse debt service on or after April 14, 2020)*
$3.0M	Cares Act relief for tenants
$1.6M	Airport maintenance/small projects (i.e. pothole repairs, etc.)

In addition to using CARES Act funds for operational expenses, the Airport Board approved the use of CARES Act funds for tenant rent relief as well as the Airports General Obligation (GO) Bond debt service for the terminal reconstruction.

Staff proposes the use of Federal CARES Act funds to cover the projected deficits for FY21 and FY22 budgets; and for the tenant rent relief for FY22, as previously outlined in July 2020.

The breakdown of CARES Act funds used and proposed is:

CARES Act Use	
21,736,343	Grant award
(727,145)	FY20 Operational Expenses
(1,150,553)	FY21 Tenant Rent Relief
(602,375)	FY21 Airport GO Bond debt service
(662,625)	FY22 Airport GO Bond debt service
18,593,645	Balance
	Proposed Use
(1,150,553)	FY22 Tenant Rent Relief (est)
(3,043,600)	FY21 Operational Expenses (est)
(1,838,000)	FY22 Operational Expenses (est)
12,561,492	*Proposed/estimated balance FY22 end*

VI. **Budget/Finance Motions.** Based on above discussions, staff proposes the following motions regarding the FY21/FY22 budgets:

A. **Finance Committee Motion (Rates & Fees):** *"Cancel previously approved Rates & Fees increases scheduled for the FY22 budget, and forward to the Board concurrence."*

B. **Finance Committee Motion (Rent Abatement):** *"Approve to accept applications from commercial aviation tenants/subtenants consisting of Part 121 air carriers, Part 135 air carriers and commercial aviation support operators (Fixed Base Operators, fuel farm, maintenance facilities, etc.) for rent abatement of fixed rate land lease, terminal lease and aircraft parking/tie downs at the Juneau International Airport for an additional one-year period from July 1, 2021 through June 30, 2022; and re-assess thereafter for additional abatement period; and forward to the Board for final approval."*

C. **Finance Committee Motion (Budgets):** *"Approve the FY21 Projected and FY22 Revised budgets, as shown in Attachments #5, #6, #7 and #8, using CARES Act funds for Expenses not covered by Airport Revenues, and forward to the Board for final approval."*

VII. **Future Budgets, Allocations and Financial Mode**l. As mentioned in the historical review (above), review of allocations should go hand-in-hand with the development of the new airport financial model. For the past several budget years, there have been discussions about revisiting the allocations that were set almost 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; and general increases in airfield operations and maintenance needs, as well as federal programs and oversight. A near future meeting will be required to review the model and this will be the perfect time to review the allocations; meeting TBD.

Staff also recognizes that while the CARES Act grant is currently helping to pay for operational expenses (due to insufficient revenues), CARES Act funds will only be available until April 2024, and the Airport will need to take serious consideration to cutting expenses, and resulting decreased services will be required if a rebound of revenues is not seen by FY23/24.

VIII. **Next Finance Meeting:** **<u>TBD</u>**