Airport Board Finance Committee Meeting Minutes
February 27, 2013

9:01 a.m. Alaska Room

I. Introduction:

Present:

Patty deLaBruere, Dep. Airport Mgr.	Jerry Godkin, Airport Board
John Coleman, Airport Business Mgr.	Joe Heueisen, Airport Board
Terra Sirevog, Alaska Airlines	Mal Menzies, Airport Board
Craig Jennison, NorthStar Trekking	Steve Zimmerman, Airport Board (by phone)
Mike Wilson, Coastal Helicopters	Marc Cheatham, Airport Special Projects Officer
Tom Williams, Ward Air	Matt Shaw, Alaska Airlines (by phone)
Eric Schultz, TEMSCO	Richard Cole, Wings of Alaska

II. A Note Regarding the New CBJ (accounting) System.

Patty deLaBruere, Deputy Airport Manager, stated that one large reason this meeting was held so late is due to the City's new Lawson system (accounting, personnel, tracking, etc.). This new system still has limitations with regard to gathering reports and account information. This has become very time consuming for Airport staff. The Airport continues to work with the City to gather accurate reports and ensure proper coding of expenses and revenues.

III. Airfield Chemicals

Ms. deLaBruere said that the Airport is still assessing the direction of deicing chemicals on the airfield. The EPA Regulation came out last Spring with a change from completely banning urea, to low limits of ammonia. The alternative is the use of very expensive E36 which is shipped in liquid form. This is a high expense to ship to Juneau. The Airport, Alaska Airlines, and congressional delegation worked collectively in their comment to the EPA. The State DEC writes the airport (effluent) permits based on EPA ruling. The Airport's current DEC permit expires in September (2013).The Airport plans to work closely with State DEC as they write the new permits. At this time, most of the airfield runoff goes into the float pond. Only one area does not and must be tested. Ms. deLaBruere noted that due to the rapid weather fluctuation here in Juneau the Airport uses a substantial amount of chemicals to ensure the safety of en route and departing aircraft. If the Airport has to move to E36, the financial impact to the budget could be in the millions of dollars. Until such time, the Airport will continue to use and budget using urea.

IV. FY12 Close-out Overview

Ms. deLaBruere stated that the FY 12 final budget fell short by (-$499,920). A shortfall was anticipated to be (-$371,100). This deficit will be paid through the Airports emergency fund, otherwise known as the Airport Fund Balance. The Airport has reported a deficit for two years now, and for both years the Airport has had to use some of its Airport Fund Balance to balance out the budget. Ms. deLaBruere explained that most commercial airports will have an Airport Fund Balance. This Airport Fund Balance should roughly be about ¼ of the Airports entire budget. Matt Shaw from Alaska Airlines added that the amount of Airport Fund Balance depends on the Airport size and complexity.

Ms. deLaBruere continued to lead the discussion, and stating the reason for the FY 2012 shortfall was a combination of revenue decreases (net down $122,200), and expense increases (up $361,900). Some of the contributing Revenue shortfalls include: Terminal Lease Revenues, Restaurant Revenues, Gift Shop Revenues (during construction), Advertising Revenues and TSA Law Enforcement Reimbursement (Federal decreases).

Regarding the TSA Law Enforcement Reimbursement, the Federal Government has been decreasing the amount of reimbursement funding every year. In the past the reimbursement was $34.00 hr. and last year it has been dropped to $24.00 hr., and the Airport will see another decrease this year with a drop to $20.00 hr. It should be noted that several years ago the Airport never received financial aid for contract security. Reimbursement for contract security was granted around 2005, due to changes in the regulations. Further, there have been more changes in the Federal Regulations and these changes will increase the Airport's security costs.

V. FY 13 Projected

Ms. deLaBruere moved on to FY 13, and explaining that last year during the initial budget process, FY 13 was presented with a shortfall of ($574,300) and FY 14 with a shortfall of ($511,400). For the FY 13 budget, the committee and tenants negotiated to split the shortfall with a combination of raised fees (in accordance with the financial model) and supplement the remaining difference with Airport Fund Balance funds. The financial model showed that the allocated shortfall was linked to the Part 121 (large) Air Carrier. Fuel flowage fees were raised $0.04/gal, while Landing Fees were raised $0.20/per 1,000 lbs. This increased revenues by $268,200; leaving $306,098 to be covered by the Airport Fund Balance.

FY 13 is projected to be on tract with the proposed budget. The balance to be covered with Airport Fund Balance money is projected to be (-$255,198). This is still a deficit budget as proposed and approved by the Airport Board and Assembly.

VI. FY 14 Projected

Ms. deLaBruere said that the FY 13 rates and fees increases carried into the FY 14 budget. This still resulted in a deficit of (-$249,298), as was approved and submitted last year. It was agreed to revisit the deficit (this year) rather than apply any Airport Fund Balance monies to balance. The deficit has now grown. In the draft updated budget (attached), the FY 14 budget deficit has increased to (-$618,041) at this time. Revenues are projected to be slightly down over the approved FY 14 budget, but the expenses are projected to be much higher than originally budgeted.

As discussed previously, the changes in Federal Regulations will cause an increase to the FY14 expenses by $130,500; while Federal reimbursement has decreased. Last fall, airports nationwide were alerted to Federal Regulation changes for Category II airports and larger (this includes JNU) with regard to armed officers. The proposed regulation would require Cat II airports and larger to provide sworn officers rather than contract security (armed security guards). These officers would have to be not just located at the checkpoint while it is open, but also around the perimeter. JNU has been working with Juneau Police Dept. (JPD) to ramp up the number of police officers to provide the required services. This will take some time, but the Airport had to budget for the increase starting halfway into FY 14, roughly the 1st January. Ms. deLaBruere noted that Goldbelt Security (current Airport Security) has been notified of this change in Federal Regulations.

FY 14 officer security services at the Airport are now budgeted at $463,500; which is an increase of $130,500. Steve Zimmerman asked if the $130,500 would be doubled for FY 15. Ms. deLaBruere answered that the $130,500 was only for 6 months, and it would double for FY 15. This figure could also increase due to salary increases. (A full year of JPD officer impact would be budgeted for FY 15 and beyond).

Additionally, as mentioned during last year's budget process, the TSA reimbursement program has decreased. These reimbursable agreements have been cut to roughly $102,000 annually; falling well short of the current $463,500 budget for officer coverage. This decreases revenues another $40,000 from what was originally budgeted. For future consideration, this reimbursement program may go away completely in the future. Overall, the impact to the FY 14 updated budget is an additional $170,500. This is by far the largest impact on the budget.

Ms. deLaBruere added that airfield markings have changed and the Airport will have to increase its paint contractor budget by $25,000, to put in enhanced safety markings (surface painted holding position signs) at every runway/taxiway intersection. This increase will happen during the Airport's spring painting schedule. In addition, there will be an increase in runway sand and chemicals of $77,000 over approved FY 14. Most of the increase is due to increasing fuel and manufacturing costs. The Terminal will also see an increase of $36,500 over approved FY 14. This increase is not because of an increase in use, but again the increase is due to increasing fuel and manufacturing. ARFF (Airfield Rescue and Fire Fighting) costs increased $13,200 over approved FY 14 budget, most is due to personnel costs, but there is fuel costs also associated to this number. Energy costs have also risen and will impact Terminal/Airfield electrical costs by an increase of $35,000 over approved FY 14. Ms. deLaBruere pointed out that the Airfield is changing its lighting system to LED to cut costs, but electrical costs are still rising.

Joe Heueisen, Airport Board, commented that with the projected phase out of the 737-400 and the increase usage of the 737-800, this will increase the Airport's ARFF index and financial impact to the Airport Budget. Mr. Heueisen further asked if there was a time frame of when Alaska Airlines sees this change happening. Matt Shaw, Alaska Airlines, said that he does not have an exact time for when that will happen, but the Planning Dept. is aware of the impact this will have for the Airport. Mr. Shaw further stated that he will follow up with the Planning Dept. and get back to the Airport with his findings.

Ms. deLaBruere commented that the Airport has had a surplus (Airport Fund Balance) for some years, but in the past two we have been chipping away at it. Steve Zimmerman noted that looking ahead even with rate increases it seems that in the next few years the Airport will not be creating any surplus to reimburse the Airport Fund Balance. Ms. deLaBruere reminded that the Airport had a couple years where there was no rate increases, but the Airport was able to keep its costs flat. This was due to consistent revenue and expenses. That is not the case now with the rising expenses and shortfall of revenue.

VII. Budget Shortfall Suggestions and Discussions.

Ms. deLaBruere discussed suggested rates and fees adjustments attachment. Land lease rates have not changed since 2008 and the suggested change is based on Anchorage Airport CPI (Consumer Price Index). The suggested rates are just bases to show different avenues the Airport can take to meet its goal (Appendix #4 of the Finance Meeting Agenda). Mr. Heueisen asked why the CPI was based from Anchorage? Ms. deLaBruere stated that the Anchorage CPI is the CPI written in tenant lease agreements and is the only one in Alaska. Ms. deLaBruere added that the reason there was a section for SIDA land lease rates in based on increased needs and priority in those area. There are currently 3 tenants that allow Part 1548 air cargo operations on their leased premises (Alaska Air Cargo, Fed Ex, UPS). The air cargo in these areas has special SIDA rules and required security checks on the Airport. As long as these land leases are used for the purpose of air cargo, they should be required to pay a higher lease rate due to random inspections and additional security requirements on the Airport.

Ms. deLaBruere noted that all suggested changes are open for discussion. Nothing reported in Appendix #4 of the agenda is definite. Airport staff is open to move things around as directed by the Airport Finance Committee. The timing of presenting the budget to the City will be later than usual. The City would like to have the budget downtown in early March, but due to the complexity and impacts on our tenants, the Airport is trying to give enough time to have discussions. The Airport would like to have the finalized budget downtown by early April.

Ms. deLaBruere revisited the allocation process. The Terminal pays for itself with Terminal concessions and Terminal lease property. There is a very small residual amount from the Terminal revenue that is allocated to the Airfield. The Airfield revenue is divided down to ARFF, which is 95% 121 air carrier (Alaska Airlines) and 5% 135AOA (smaller commercial operators) and GA (General Aviation), and the rest of the Airfield is divided 85% 121 air carrier and 15% 135AOA and GA. From this allocation the FY 14 financial model breaks out the shortfall as $82,586 135AOA and GA and $535,455 121 air carrier.

VIII. Other Items for Discussion

Tom Williams, Ward Air, asked how much does the Terminal subsidies the Airfield? Ms. deLaBruere replied its roughly $176,300.

Jerry Godkin, Airport Board, asked if the unfilled positions were factored into the budget? Ms. deLaBruere answered that the positions are factored into the FY 14 budget. Mr. Godkin followed up to ask where security fit in the finance model? Ms. deLaBruere answered that security is split 50/50 between Airfield/Terminal. As a side note Ms. deLaBruere explained that Administration costs are also split 50/50 Airfield/Terminal, and a good portion of Administration costs are financed through the Terminal and Airfield projects.

Mr. Zimmerman stated that if all the fees that were suggested on the sheet were added up, the Airport would still fall short of balancing the deficit. Ms. deLaBruere explained that these are only sample revenue. The Airport may want some and not others, and that they can be cumulative. An example of Alaska Airlines Landing Fees last year were raised by .20/per 1,000. It is only to give an example of what increments raise what revenues.

Craig Jennisen, NorthStar Trekking, asked if the Airport was cutting costs in addition to the Airport presenting an increase in fees? Ms. deLaBruere explained that the Airport has and is cutting costs in every avenue possible from creating positions to replace other positions at a much lower rate, to finding grants to offset expenses. Mr. Godkin added that there are no “sacred cows” here at the Airport and all around the United States many organizations are trying to find ways to cut costs. Further, Mr. Godkin stated that the Airport will also have to evaluate all spending to identify what can be cut and what cannot. Ms. deLaBruere confirmed with Mr. Godkin, and stated that she meets with Terminal and Airfield Supervisors to identify areas that can and cannot be cut. The biggest increase in the Airports expenses is the increase in supply costs.

Mr. Heueisen asked if the Airport will be able to get the needed information now and in the future from this new City finance system (Lawson)? Ms. deLaBruere stated that there is a huge learning curve for downtown and the Airport regarding this system and in time we think the system will work out.

Mr. Shaw asked where parking and other concessions would be in the revenue breakdown? Ms. deLaBruere answered that the parking and other concessions are a part of the rentals. Mr. Shaw asked if for the next meeting there could be a breakdown of parking and other concessions and a proposed fee increase of those areas? Ms. deLaBruere answered that she would break it down for the next meeting. Ms. deLaBruere read the current rate structure/fees for the parking lot and stated that they hadn't changed since 2006. While everything is open for rate adjustment consideration, Ms. deLaBruere cautioned that too high of a rate hike in the parking lot may drive people away and they would take cabs instead.

Mr. Godkin asked where the Airport was with renting out the conference rooms (Alaska and Juneau Rooms)? Ms. deLaBruere answered that she is unsure at this time, but will look into it. She thought it was two-fold between getting contracts drafted and establishing rates. She further noted that Centennial Hall has an approved list of vendors for food concession in the meeting rooms. This is another item that must be considered. Mr. Godkin followed that the room rentals are a good source of untapped revenue.

Ms. deLaBruere noted that the Airport has two new large water meters that meter all water coming into the Airport. Tenant rates were based on the estimated flowage back in 2004. It appears to be substantially higher. One thing that the Airport needs to look at is increasing the water/sewer rates. Tom Williams asked if the Airport could provide a water/sewer financial break down for next meeting? Ms. deLaBruere pointed out that Airport staff can only take direction from the Airport Board and if the Board directed staff to so, it would be no problem. Mr. Heueisen stated that a water/sewer break down would be beneficial to look over. Ms. deLaBruere confirmed that staff would have something for the next meeting.

Mr. Godkin pointed out that he spoke with Ken Kelsch, and Mr. Kelsch advocated that the Airport should receive the Marine Passenger Fund. Ms. deLaBruere noted that in the agenda there is a line item addressing the Marine Passenger Fund. Mr. Heueisen asked how much Marine Passenger Fund did the Airport receive the last time it was allocated? Ms. deLaBruere stated it was $159,100. Ms. deLaBruere pointed out that the Airport does not get Marine Passenger Funding, but the Airport does get funding from bus permitting, (which shows proposed increases in Attachment 4). Mr. Cole pointed out that one of the reasons that the Airport is not receiving the Marine Passenger Fund anymore is because Juneau is not a main transfer location for passengers and crew. This is not the case for places like Fairbanks and Anchorage, where lots of passengers and crew are coming on and getting off the cruise liner. Mr. Schultz further pointed out that Juneau is not a turn port and due to the Jones Act; passenger can't disembark in Juneau unless it's an emergency. However, there are some smaller cruise liners that do use Juneau as a turn port, but the amount of passenger is more like 60-100 rather than the thousands of passenger on the larger vessels. In addition, the smaller cruise liners are under the tonnage to qualify to have to pay the marine passenger fee. It should also be noted that crew do not pay any marine passenger fee, because they are not passengers.

Mr. Godkin stated that in the past the Airport received the Marine Passenger Fund from the Assembly without issue. The Airport might want to try and persuade the Assembly to give the Airport a piece of the Marine Passenger Fund, due to the amount of tourist that use the Airport. It seems that with the change in Assembly the culture has changed and the knowledge of previous Assembly allocations has gone with them. Ms. deLaBruere noted that the Airport has written justifications every year to the Assembly for the Marine Passenger Fund. Further, the cruise ship companies wrote that the money provided from the Marine Passenger Fund should be used for capital projects that have to do with tourism. In the next coming years the Airport will be rebuilding the North Terminal area and the financial match the Airport planned could be from Marine Passenger Fees.

Mal Menzies, Airport Board, asked why the proposed float pond tie down rate was almost double the previous rate? Ms. deLaBruere stated that the rate is associated to the new infrastructure and maintenance that has to be done to the float pond. Mr. Godkin asked if for the next meeting, would Airport staff provide what a premium boat stall costs? He further, stated that it is understood that it is not exactly the same, but it could give us a general idea of a cost comparison. Ms. deLaBruere concurred that the Airport staff would look into it. Richard Cole, Wings of Alaska, pointed out that it might also be beneficial to look at Anchorage and Fairbanks float pond tie down rates.

IX. Next Finance Meeting: TBD