Airport Board Finance Committee Meeting Minutes
April 4, 2013
9:04 a.m. Alaska Room

I. Introduction:

Present:

Jeannie Johnson, Airport Mgr.	Jerry Godkin, Airport Board
Patty deLaBruere, Dep. Airport Mgr.	Joe Heueisen, Airport Board
John Coleman, Airport Business Mgr.	Steve Zimmerman, Airport Board
Mal Menzies, Airport Board	Kent Craford, Alaska Seaplanes/Air Excursion
Ron Swanson, Airport Board	Mike Stedman, Alaska Seaplanes/Air Excursion
Tom Williams, Ward Air	Marc Cheatham, Airport Special Projects Off.
Mike Wilson, Coastal Helicopters	Ken Nestler, Civil Air Patrol
Tim McDonald, TEMSCO Helicopters	

II. Recap of Previous Finance Meeting

Patty deLaBruere, Deputy Airport Manager, discussed what was approved from the previous Finance Committee Meeting. As presented on the meeting agenda, the Airport Finance Committee presented several motions. The first approved motion was parking lot rate increase. The short term for 16 min. to 60 min. would increase to $3, long term 0 min. to 120 min. would increase to $5, and the long term day rate would increase to $14. This increase would generate roughly $143,100 in revenue. This rate increase can go into effect as soon as the Airport Board approves the motion. Republic Parking did want to caution that a drastic increase could push people to find parking elsewhere or find other modes of transport to the Airport. In addition, at the last Finance Committee Meeting there were several other approved motions as shown on attachment #2, with the red check marks, if the group wants to review them. Moving on, there was a question last meeting about the water and sewer and how much water was being pumped onto the Airport and from that total, how much is tenant usage. The Airport ran the number and this is presented on page 2 of the agenda. The Airport's suggestion is not to look at water and sewer rates and fees at this time, instead have another finance or operations meeting to discuss this single topic.

Ron Swanson, Airport Board, noted that in the beginning when the Airport had the two new water meters in there was a huge variance and it was suspected that there was a leak. Was there a leak and has the variance lowered since?

Jeannie Johnson, Airport Manager, stated that the Airport has narrowed the variance down and do not believe there is a leak.

Marc Cheatham, Airport Special Projects Officer, noted that the variance has come down and there is roughly 30,000 to 50,000 gallons unaccounted for.

Mike Stedman, Alaska Seaplanes/Air Excursions, noted that the water hydrant by their leased property leaks water.

Ms. Johnson thanked Mr. Stedman for noting the hydrant leak, but believes that hydrant was already fixed.

Ms. deLaBruere continued to the lead the discussion on other topics that were requested to find more information from the previous finance meeting. One of which was the Alaska Room and rental.

Ms. Johnson mentioned that the Alaska Room contracts are still in development. Mr. Cheatham worked on the documents when he started working at the Airport, then it was given to another staff member who is no longer with us, and now Cynthia Johnson, Airport Architect Assistant, is looking over the documents and they should be ready very soon. It should be noted that this room rental will only provide $2500 in revenue annually.

Ms. deLaBruere discussed the impact that the new proposed rates from last week's meeting, and how much it will affect the deficit (attachment #1). If all rates proposed go into effect, the Airport still has a $557,541 deficit.

Ms. Johnson asked if the approved FY 14 $249,298 deficit is included into the FY14 updated?

Ms. deLaBruere answered that the $249,298 is included in the FY 14 updated deficit on attachment #1. As a recap, the FY 12 actual left the Airport with a $445,920 deficit that was paid for with the Airport's Emergency Fund. Then the Airport got FY 13 and FY 14 approved with a deficit $306,098 (FY 13) and $286,998 (FY 14). The FY 13 was paid with the Emergency Fund and the Airport decided that FY 14 deficit would need to be paid with increased rates and whatever is was left over through the Emergency Fund.

Tom Williams, Ward Air, noted that he did not mind the change of language from the last finance meeting. However, he was against the double hit of increasing the lease rates and reclassifying his leased property to also have an increase. A 33% increase is not reasonable and would ask the finance committee to revisit that increase to make it more reasonable. In addition, hangar owners that are using their hangar for commercial use should also have to pay this commercial lease rate and not the non-commercial lease rate.

Ms. Johnson noted that the rates have not increased since 2006, and a lot has changed. These rates should have changed as the Airport was in a deficit. The Airport can't keep paying the deficit down with the Airport Emergency Fund. If we stay this course, the Airport Emergency Fund will be gone and then what? In regard to the commercial operators working out of executive hangars, if they are currently being charged the non-commercial lease rate, their lease will be amended to reflect a commercial lease rate.

Ms. deLaBruere noted that the 135 commercial tenants are not the only ones with increase rates. For example, the Airport created a SIDA rate that is dramatically higher than the commercial lease rate. This is because some tenants that are required to have SIDA areas need additional security and that impact should not be equally distributed to all tenants, especially tenants that do not have SIDA areas.

III. Employee Parking Fees

Ms. deLaBruere discussed the proposed employee parking fee rate (attachment #2, page 4). The proposed increase is from $35 to $40 per month. There is a 10% discount for prepayment of an entire period (October through April; or May through September). This increase would create additional revenue of $3500.

Joe Heueisen, Airport Board, asked if the Airport employees pay for parking.

Ms. deLaBruere stated that Airport employees do not pay for parking, per personnel rules. However, personnel rules can be modified, but it should be noted that the city pays for city employee parking.

Steve Zimmerman, Airport Board, proposed a motion that the tenant employee parking change to $40 per month. Mr. Menzies, Airport Board, seconded the motion, and Mr. Heueisen approved the motion.

IV. Badging Fees

Ms. deLaBruere discussed the proposed fee increase for badging (attachment #2, page 2). There is a lot more personnel time going into the badging process and audits that are required by federal regulation. To offset the personnel costs put into badging, the fees are proposed to rise for the following: initial issue (badge + $50 deposit) will increase from $65 to $75, renewals will increase from $15 to $25, re-issue for worn or damaged badge will increase from $15 to $25, fingerprint fees would increase from $45 to $50, proximity gate card will increase from $5 to $10, and non-airport id's would increase from $10 to $25. These proposed changes would generate estimated additional revenue of $15,200.

Mr. Zimmerman proposed a motion to increase badge fees as presented by Airport staff. Mr. Menzies seconded the motion, and Mr. Heueisen approved the motion.

V. Terminal Lease Rates

Ms. deLaBruere discussed proposed terminal lease rate increases (attachment #2, page 5)
The increases as shown on the attachment were generated by a compounded CPI. Terminal lease rates have not changed since 2001. These suggested rates are open for discussion. If the proposed increases were put into effect, it would generate an estimated additional revenue of $250,795.

Kent Craford, Alaska Seaplanes/Air Excursions, discussed the 7 feet referenced from in front of the counter. Does the Airport know what the occupancy was in 2001, and what was historically leased compared to what is currently leased?

Ms. deLaBruere stated that the Airport does not have that information at this time, but can look it up and provide it at a later time. In addition, the amount of tenants leasing has gone down, however there are areas of the terminal that tenants used in the past that are being leased by the projects (runway safety area, terminal renovation).

Mr. Craford asked if the Airport is allowing tenants to lease counter space without leasing the office space behind the counter?

Ms. deLaBruere answered that the Airport has leased just counter space if there is no office space available behind the counter.

Mr. Craford stated that Alaska Seaplanes/Air Excursions occupies two counter spaces, plus 7 feet in front of the counter, the offices behind the counter, the canopy behind the office, and several ramp spaces. After looking at these suggested rate increases, research was conducted on what counter space and space in front of the counter cost at major metropolitan concessions; from that research, downtown San Francisco charges $31sf and what's being proposed here is $2 higher.

Ms. deLaBruere explained that the proposed amount is annually, and it's hard to believe that the cost (Mr. Craford stated) is annually. The cost per square foot at Seattle Airport is over $300.

Further, some airports use their concessions to offset the terminal rate. This Airport is working to build a concession to try and offset rates and in time have them decrease.

Ms. Johnson added that when you compare square footage, you have to compare apples to apples or in this case airports to airports, and not general public real-estate.

Mr. Craford explained that in the most recent years the demand for 135 carrier transport is in a steady decline. With this decline in demand, if the rates are increased, the Airport could see a loss in revenue; because tenants will look for other avenues to conduct their business. In addition, when Alaska Seaplanes leased the space next to it, it was their understanding that the office space behind the counter had to be leased as well. How is it fair that a competitor can lease a counter on the other end of the north terminal and not have to pay for office space behind the counter?

Ms. Johnson stated that the operator that Mr. Craford is speaking about is Fjord Flying, and Fjord used to lease counter space from Alaska Seaplanes before the company moved locations. Ms. Johnson asked John Coleman, Airport Business Manager, how much space is leased to Fjord Flying?

Mr. Coleman explained that information is not on hand, but the space is leased for roughly $300 a month. Further, the reason the counter space was leased and not the office space is due to the space behind the counter is already leased out to United States Department of Agriculture (USDA) Wildlife Services. If Fjord Flying did not move into that counter space the Airport would not have any revenue for the counter.

Ms. Johnson noted that there is not a lot of open space available, and the Airport has received several inquiries for the rest of the old Air Excursions space. In addition, Fjord Flying does lease the canopy behind the USDA office.

Mr. Heueisen asked if Alaska Seaplanes/Air Excursions have a rate they would like to discuss or suggest.

Mr. Craford stated that it was a surprise to see that these rates have not increased since 2001. If the Airport increased the proposed rates to catch up by compounding the CPI, it will be very hard to push that cost onto the passengers. There has to be further discussion on this rate increase and Alaska Seaplanes/Air Excursions has suggested in the past to add a passenger facility charge as a source of additional income to offset the lease rates.

Ms. Johnson agreed with Mr. Crawford, on the issue of how the percentage is a large increase. With that noted, at the previous finance meeting Alaska Airlines commented that the other carriers have not been increased since 2001, and they are concerned that everyone is not paying their fair share. So, the amount increased for terminal space needs to increase, but maybe not at the currently proposed amount. Instead of a one-time increase, how about a phased increase; allowing time for the tenants to budget and plan.

Mr. Craford added that Alaska Seaplane/Air Excursions is the largest tenant in the north terminal, and it was a strategic choice to locate at the north terminal rather than locating at the Channel Hangar. If the rates are too high, Alaska Seaplanes/Air Excursions will have to look at its options.

Ms. Johnson said that this is a good discussion to have and the Airport will put different rates in the finance model to see how lower rates will affect the bottom line.

Mr. Menzies asked if the Airport planned to phase in the rates rather than one time increase? In addition, what would be the rate increase per phase?

Ms. Johnson answered that the Airport suggests a phased in approach. At this time, rates and phase in time line has not been determined. The Airport would like to hear from the operators on their suggestions first before making that determination.

Mr. Menzies asked who is to blame for not increasing the rates since 2001?

Ms. Johnson answered that it's unclear who to blame for not increasing the rates. The fact is that over the years rates are looked at to increase, the tenants challenge the rate increase and the Airport Board sides with the tenants. There is a point where you have to increase rates.

Mr. Swanson pointed out that Alaska Airlines didn't have much of an issue to paying what was asked, but Alaska Airlines has a monopoly at this Airport and they will just increase the ticket price to compensate. In comparison to the 135 operators that have to compete with each other, and people from out of town. That needs to be taken under consideration.

The group discussed if a motion should be issued or if a continued debate is needed.

Ms. deLaBruere noted that one reason that the rates never were increased was in the past when the financial model was being created, it showed that there was excess in terminal fees. It was agreed to shift the fees to airfield from the terminal. If the Finance Committee would like for the Airport to plug in some new figures into the finance model, it can, but it will need direction from the Finance Committee first. It should be noted that the rates shown, in attachment #2 (p.5), is the compounded CPI from 2001. This is not a recommendation, but rather a provided rate for discussion purposes only. The Airport was unclear on which rates would be approved and as rates are approved, those rates can be applied to the finance model to see where what other areas need to increase to balance the budget. As of right now, with the items approved, if the terminal rates changed to the compounded CPI, the terminal lessees would be paying too much.

Mike Wilson, Coastal Helicopters, stated that a CPI can only be increased during a period of time after the CPI has changed.

Ms. Johnson pointed out that the reason the Airport used the CPI is for the tenants to have a justified percentage to relate to.

Mr. Wilson suggested that the Airport should use the CPI as a rate change every year rather than having this heavy hit.

Ms. deLaBruere noted that a change every year either by following the CPI or a determined amount is prudent. This would allow for tenants to budget accordingly.
Ms. Johnson added that the Airport has to abide by FAA grant assurances that state the Airport will not discriminate against one tenant over another. Every tenant needs to pay their fair share. In the past the 135 operators and the 121 operator sat down and determined the 85% / 15% split and if that split is felt to be unfair, than the 135 operators need to sit back down and discuss it with the 121 operator.

Ms. deLaBruere included that the Airport looked at areas to cut and ways to reduce expenses, but after the Airport did cut expenses in several areas, Goldbelt Security came to the Airport and explained that they would be leaving earlier than expected. This increased the Airport's expenses by adding more money for contracting JPD earlier than planned.

Mr. Menzies asked the 135 operators what their rate change has been since 2001?

Mr. Craford said that their passenger rate has increased due to fuel increases and fuel accounts for 30%-40% of the airlines operating expenses.

Mr. Williams asked if the Airport would consider a phased in approach to the land lease rates as they have for the terminal lease rates? Further, it might be a good idea to revisit the 135 operator percentage and the 121 operator percentage. The landscape was much different then and there are less 135 operators to share the burden of the 15%.

Jerry Godkin, Airport Board, asked if the Airport could tell when deposits were made into the Airport Emergency Fund, from 2001 to present? How did the Airport Emergency Fund get to a $3 million surplus?

Ms. deLaBruere explained that the Airport Emergency Fund was developed over time. For example, there was one year with revenue over expenses of roughly $100,000 and other years with less. Over time it grew into the Airport Emergency Fund we currently have. The last time money was put into the Airport Emergency Fund was before 2009. Even though the rates have not increased the Airport has absorbed the burden rather than increase the rates.

Mr. Heueisen asked if the Airport could provide a 2 phase and 3 phase approach to the leased rates?

Ms. deLaBruere stated that the Airport would need a 10-15 minute recess to break the rate down into a 1/3 phased approach and also what one year CPI would change the rate.

The Finance Committee Meeting was adjourned for a 15 minute recess.

Ms. deLaBruere stated that at a one year CPI of 2.2% increase would generate roughly $15,800 ($12,700 east terminal lease revenue and $3,100 north terminal lease revenue) and a 1/3 the proposed rate would generate roughly $82,700 ($66,100 east terminal lease revenue and $16,600 north terminal lease revenue).

Ms. Johnson pointed out if the Airport goes to a square foot rate, this new proposed rate would impact the north terminal tenants $0.54sf annually. That breaks down to $0.045sf a month.

Ms. deLaBruere noted that this new amount has not been put into the model. The Airport would like direction from the Finance Committee.

Ms. Johnson asked to see what the one year CPI would effect in the finance model.

Ms. deLaBruere stated that if this is the amount proposed the Airport will have to change proposed amounts in the fuel flowage due to the residual amount not covered in the terminal lease revenue.

Mr. Swanson asked if the Airport Board could implement an automatic CPI annually rather than having rates not increased for many years. This way the tenants can budget for the increase.

Mr. Heueisen asked if an annual CPI increase would create any issue with the FAA and the tenants? How does the Airport explain its justification for this increase?

Ms. Johnson answered that an annual increase is better than a large one time increase every decade. If the Airport Board wanted to implement an annual increase and deem the increase to coincide with the CPI, it could do so.

Mr. Williams asked if the increases would be limited to the CPI increases?

Mr. Heueisen stated that it would not be limited to the CPI, but it's a good constant to start with.

VI. 135/GA Fuel Flowage Fees

Ms. deLaBruere said that after putting the 2.2% into the financial model there is roughly $32,500 that will need to be made up on the 135 operators and general aviation (GA) side. To review what changes would needed to be made, on attachment #2 (p.3) there is a section that shows fuel flowage fees, and how much additional revenue would generate for every penny increased. To offset the $32,500, the fuel flowage for 135 operators and GA would need to increase roughly $0.03.

Ms. Johnson noted that she is personally against an increase in fuel flowage fees, but as an Airport Manager it's what is best for the Airport.

Mr. Swanson stated that the Airport Board is here to do what's best for the Airport. As much as some of us personally would like to keep fuel rates down, the Airport Board will do what's best to for the Airport.

Ms. Johnson suggested that the Airport Board implement the annual CPI adjustment, if the Airport Board does not agree to an annual CPI adjustment, then the Airport Board should decide what FY 15 rates will be so that the tenants can budget accordingly.

Ms. deLaBruere said that before Mr. Craford left he explained that an annual adjustment would be easier to pass on to the passengers.

The group discussed possible motions.

Mr. Williams asked if the small jet and helicopter fuel flowage would also increase?

Ms. deLaBruere stated that all 135 operator aircraft and GA aircraft fuel flowage would increase by $0.03.

VII. 121 Fuel Flowage Fees/Landing Fees

Ms. deLaBruere stated that there is a deficit of $508,000 for 121 operator increase that needs to be made up in a combination of fuel flowage fees and landing fees. With Alaska Airlines not present at this meeting, should the Finance Committee make a suggestion until the Airport speaks with Alaska Airlines.

Mr. Swanson noted that in the past the Airport has tried to increase fuel flowage fees and when this was done, Alaska Airlines found ways to purchase less by adding fuel at other locations with lower rates.

Ms. deLaBruere said that Alaska Airlines would not make a detour to try and save gas, and they can only put so much fuel on board to ensure they are under the landing weight maximum.

Mr. Menzies added that at the last finance meeting, Alaska Airlines stated that they would not detour or tanker, because the Airport would increase in other areas to compensate.

Ms. Johnson included that Alaska Airlines will express the areas they prefer to have the increases. In the end the Airport makes up the deficit.

Mr. Heueisen stated that the Airport needs to get establish some figures, and then the Finance Committee and Alaska Airlines need to meet prior to the Airport Board meeting to have the motions ready.

VIII. Recap of Land Lease Rates

Ms. Johnson suggested that the land lease rates discussed the previous finance meeting be phased in; 50% this year and 50% next year, rather than one major rate change. This will leave a hole in the budget, that must be filled somewhere else, but it is only fair to phase it in just as we have proposed phasing in the terminal lease rates.

Mr. Zimmerman asked if there was anywhere else those losses could be recouped?

Ms. Johnson said that the Airport might need to revisit some of the rates presented today, and move things around in the finance model. The Airport believes the Airport Board will hear many arguments from the tenants with this one time rate increase and the Airport is trying to distribute the deficit fairly.

Ms. deLaBruere pointed out that because the motions have not been presented to the public there is still time to adjust the rates and motions previously presented.

Mr. Menzies asked if the suggested 2 phase approach for the land leases could be a 3 phased approach?

The group discussed different phased in approaches in regard to land lease rates.

Mr. Williams stated that the phased in approach is more appealing, but with the reclassification of the leased land, which raises rates, in addition to the increase rate for commercial land, is just too much.

Mr. Wilson added that the Airport has presented the idea of adding an annual CPI, and if you phase in these rates, will the Airport push the CPI out until after the phased in rates are in effect?

Ms. Johnson agreed that a CPI added on top of the phased in rate increases would not be advised.

Mr. Godkin followed up and stated that the point of the increases is to get to the correct rate if it would have changed in an annual fashion. It would only make sense to have the CPI added on top of the phased in rates.

Ms. deLaBruere stated that the Airport could reclassification this year’s rate and then next year have a new rate that has the CPI included.

Mr. Wilson said that Coastal Helicopters budget is set January 1. If this was to be a phased in approach how about making one phase in now, the second on January 1, and the third rate in July of next year.

Ms. deLaBruere informed that if this was to phase in as Mr. Wilson just stated, the reclassification would happen now (under reclassification, tenants performing commercial operation, not paying commercial rates, would be changed to the commercial lease rate of $0.47sf/yr.), January ‘14 the commercial land lease rate would increase to $0.52sf/yr., and July ’14 the rate would increase to $0.57sf/yr. (with an optional CPI increase).

Tim McDonnell, TEMSCO Helicopter, asked what the undeveloped land would change to?

Ms. deLaBruere answered that the rate is proposed to change from $0.17sf/yr. to $0.19sf/yr.

The group decided to take a small break to allow Ms. deLaBruere to enter this proposed phased in rate increase change into the finance model.

Ms. deLaBruere explained with the phase in approach as discussed before the break, the decrease in revenue, from changing the classification and increasing the rate in January ’14, went from roughly $75,000 to $45,000, so that would be a $25,000 savings for the tenants.

The group discussed the changes that could be made after the fuel flowage fees are adjusted.

Ms. deLaBruere explained that until the numbers are put into the financial model, the Airport won’t know if this phased in approach will come close to balancing the budget.

Mr. Heueisen proposed a meeting next week to finalize the budget discussion, before the Airport Board meeting.

Mr. Zimmerman proposed a motion to adjourn for the day. It was seconded by Mr. Menzies, and approved by Mr. Heueisen.