

**Juneau International Airport
Finance Committee Meeting
February 11, 2016, 9:30 a.m.
Alaska Room**

- I. Introduction** (meeting participants). This meeting is intended to be informational only until final budget numbers are received. Discussions to focus on overall budget picture.
- II. FY15 Close-out overview.** (See Attachments #1, #2 and #3.) As originally budgeted/approved, FY15 was facing a deficit of (\$233,300) which included the Board's approval of spending \$104,800 to band aid repair Alex Holden Way (air freight road). The deficit was to be covered with Airport Fund Balance. The repairs came in less than projected, but more importantly stronger revenues were combined with expense savings (mild winter). The result was FY15 finished in the black by \$456,409. This increased our Airport Fund balance to \$3.7M at the end of FY15 per the City CAFR (Comprehensive Annual Financial Report). *HOWEVER*, please see discussion on Airport Reserve Surplus /Fund Balance Account and the impact from unfunded pension liability, section V., below.

Note: As of the posting of this agenda, Airport Rescue, Fire Fighting budget and JPD (Airport Police) and City Interdepartmental Costs (Full Cost Allocation) budgets were not finalized/ received for the FY 16 Projected, and the FY 17 & FY 18 Proposed Budgets. The Airport has made a 'best guess' for these cost centers at this time.

- III. FY16 Projected.** (See Attachments #1, #2 and #3.) FY16 was originally approved showing a deficit budget of (\$400,787), with the idea that this would be revisited mid-way through the biennial budget, and adjust or use Airport Fund Balance. In February 2015, staff updated the budget, and once again, strong revenues were predicted. It was projected that FY16 would end in the black by \$182,782. While revenues look to be right on track for FY16, expenses look to be slightly higher. This is partly due to the schedule for ARFF to increase to an Index C this spring and the Airfield Shop Roof Repairs of \$300,000 (which the Board approved in June 2015). The Shop Roof Repairs were approved to be funded from Airport Fund Balance. FY16 is projected to come in at a deficit of (\$246,600), but Airport Fund Balance is planned to cover this through a supplemental appropriation. Also see discussion on Jetbridge 5 repair in section VI.
- IV. FY 17 and FY 18 Proposed.** (See Attachments #1, #2, and #3.) FY17 Proposed budget estimates a (\$603,600) deficit at this time. FY 18 Proposed budget is anticipating a (\$627,500) deficit. Again, these figures are pending final budgets for ARFF, JPD and the City's Interdepartmental Costs (full cost allocation). The following discusses the major changes in the budget since the last biennial (FY15/16) budget.

EXPENSES:

Expenses for FY17 & FY18 show increases projected in the Personnel costs (and related Full Cost Allocation) and Services/Charges:

PERSONNEL: Negotiated (union) wage increases of 2% went into effect July 2015 (FY16), which carries into FY17/18 budgets, in addition to general longevity increases and Workers Compensation cost increases. FY17/18 Health/Wellness costs remain steady and benefit factor actually dropped 2%. FY17 Personnel expenses show an increase of \$114,300 over the FY16 Updated budget and FY18 Personnel expenses show an increase of \$149,800 over FY16 Updated budget.

SERVICES & CHARGES:

Four Services and Charges line items are highlighted below. ARFF, Airport Security and Full Cost Allocation are subject to changes and/or projected to increase dramatically for at least two of them:

FULL COST ALLOCATION: Unknown at this time. Final figures not received by CBJ. FY15/16 rates put in as placeholder. Watch for now.

INSURANCE: Overall insurance (general liability, auto, employee practice, special policies required as an airport, etc.) show an increase of \$30,700 for both proposed fiscal years (FY17/18).

ARFF: Budget numbers have not been finalized by the Fire Department at this time. An estimate provided by the Fire Department has been budgeted in the figures presented. As presented, ARFF contractual is estimated to nearly double in order to accommodate the increase to Index C. This is an increase of \$546,400 annually to FY17/18. The final figures should be available by the next Finance meeting. Estimates are provided in the budget.

AIRPORT SECURITY (JPD): Budget numbers are not yet final for Juneau Police Department Officers at this time. JPD has provided estimates which are entered into the budget. FY17 JPD costs reflect an increase of \$66,900 over the Updated FY16 budget and FY18 shows an increase of \$67,800 over the Updated FY16 budget. The estimates provide for the past biennial budget (FY15/16) did not reflect training and initial recruitment costs. The City absorbed these costs until the middle of FY16 before charging the Airport for these costs. Once this recruitment balances out, the airport will only pay a pro rata share of any future recruitment and training (number of airport officers/total number of department officers). The final figures should be available by the next Finance meeting. Estimates are provided in the budget.

OTHER/CONTRACTUAL: For several years (through FY16), the Airport was able to defer runway/taxiway painting/markings into capital project costs. Runway Rehab and Runway Safety Area projects made changes to these movement areas that captured the costs of this Service/Charge into those capital projects, thus removing the expense from the Maintenance & Operations budget. With those projects completed, the cost of painting/markings the full runway/taxiway fall back into our budget. This 'deferred' costs is back in FY17/18 budgets at

an annual cost of \$71,000 to \$78,000. This could escalate in subsequent years that black background paint is required (as the new surfaces age and discolor).

Overall proposed budget expense increases are \$829,500 for FY17 and \$873,400 for FY 18 as compared to FY16 Approved. Again, these are only estimated budget numbers for ARFF, JPD and full cost allocation. Total proposed budget expenses are \$7,055,200 for FY17 and \$7,099,100 for FY18.

REVENUES:

The Revenues, at this time, are slightly increased for both FY17 and FY18 due to increased number of proposed landed aircraft. Fee increases will more than likely be necessary to cover the increase to ARFF Index C and JPD costs at the passenger screening checkpoint.

Overall proposed budget revenues are \$6,454,500 for FY17 and \$6,473,900 for FY18.

Budget Shortfall Suggestions and Discussions. The Airport does not intend to discuss the budget shortfall in full detail at this meeting. Once the Airport has received the final figures, a final computation from the model will be reviewed and final suggestions made by staff. Additionally, the Airport Revenue Surplus funds will be reviewed (see VI. Below). As the draft budget stands today, the financial model breaks out the shortfall as follows:

FY 17 (\$600,700 deficit)

\$277,847 GA/135 portion

\$322,853 Air Carrier (121)

FY 18 (\$625,200 deficit)

\$284,432 GA/135 portion

\$340,768 Air Carrier (121)

Normally, the split between Air Carrier (121) and GA/135 is an 85/15 ratio. As a reminder, during FY15/16 budget negotiations (February 19, 2014), the tenants and Finance Committee agreed to use Airport Fund Balance (*Revenue Surplus* was the term used at the time) to offset approximately 50% of the deficit, while adjusting Fuel Flowage Fees (to all groups: 121, 135, GA) for the other 50%. The Fund Balance was applied equally to 121 air carriers and 135/GA, rather than the allocated 85/15 that the expenses are based on. This created an inequity of allocations for the two types of operators within the financial model. In other words, the 135/GA still had a deficit in their share of costs regardless of the budget balancing. We ‘pushed’ the model to accept the 50/50 split, but the 135/GA expenses were still hanging out there as ‘unmet’.

At this time, the Airport is presenting the budget for initial review and discussion. Staff makes no recommendations at this time, but will propose options at the next meeting.

- V. ****BIG IMPACT**Revenue Surplus Account/Airport Fund Balance (Attachments # 4 and #5).** At the August 2013 Finance Committee meeting and the September 2013 Airport Board meeting, the Airport set up the Revenue Surplus Account for the Airport (formerly known by several names such as Cash Balance, Reserves, Airport Fund Balance, etc.). This was formally set at a three-month operating reserve through the revenue surplus account. This would be revisited each budget cycle to ensure the revenue surplus was maintained at the three month total. Based on the FY17 budget proposed, the Revenue Surplus Account would *currently* require \$1.764M. This is an increase to the \$1.5M previously established in FY16. Until the final budget numbers are in, this is only an estimate for planning purposes.

In October 2015, the Assembly was presented with a summary from the City's Finance Director on the State Retirement System deficiency for Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) (see Attachment #4). Essentially, these retirement systems were underfunded for years and now see 'unfunded' pension liability. Attachment #5 outlines what that liability is for the Airport. This attachment also puts it into reference with the Airport operating budget and the fund balance. While the Airport had crept back up on its Fund Balance (Revenue Surplus) to \$3.738M at the close-out of FY15, roughly \$1.9M must be accounted for as a pension liability. This means only \$1.825M remains in the Airport Fund Balance at FY15 year-end. Based on FY16 projected budget deficit and pension liability, FY16 year-end would only show \$1.579M in Fund Balance. This is short of the \$1.764M that would be required for FY17 3-month reserves.

After discussing this with the Finance Department, we do not believe any drastic changes or an increase to the budget needs to occur at this time to make up the difference with the 3-month reserve. It should be monitored over the next couple budget cycles. In order to maintain some reserve, no further use of the fund balance should be used to balance the budget. The reserve should continue to be a source for emergency repairs, to be replenished with subsequent year's budget.

- VI. **Jetbridge 5 Repairs.** As briefed to the Board at the February 9, 2016, Airport Board meeting, the Airport is looking at costs and long-term solutions to the power interruption issues that made the motor control fail on the jetbridge. Some small/quick repairs are being attempted, but whether this will require a more major repair and/or a long-term repair/reconfiguration of the system is unknown. Staff is working both angles simultaneously. Staff hopes to have an update on both the quick fix remedies and the long-term solution at the meeting. Regardless of the current fix, a long-term reconfiguration will be sought. The cost (when known) will be proposed to be funded from the Revenue Surplus Account (Airport Fund Balance).
- VII. **State Funding Match.** In October 2015, the State of Alaska sent Juneau International Airport a letter stating that they were terminating the State match portion on JNU AIP (Airport Improvement Program) projects. After discussing this with the State, and the short notice received, the State agreed to participate with \$734,400 worth of Federal Fiscal Year

(FFY) 2016 projects (details given at the January 2016 Board meeting). This is only an FYI at this time. Staff is researching the original Alaska Aeronautics Act of 1949 that allowed for JNU to receive this match. Regardless, JNU will need to look at ways to match AIP grants for FFY17 and beyond. Capital match in the M & O budget or Passenger Facility Charge (PFC) collection for match are a couple of suggestions for future match if JNU is completely cut from these matches.

VIII. Other items for discussion.

IX. Next Finance Meeting: TBD