Juneau International Airport
Finance Committee Meeting
February 29, 2016, 11:00 a.m.
Alaska Room

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

II. **FY16 Projected Update. (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 Aircraft Rescue Fire Fighting (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 the Airport Fund Balance. An update to the FY16 budget is projected to come in at a deficit of ($117,200), but the Airport Fund Balance is planned to cover this through a supplemental appropriation. Also, see discussion on Jetbridge 5 repair in section V.

III. **FY 17 and FY 18 Proposed. (See Attachments #1, #2, and #3.)** Final numbers for ARFF, Juneau Police Department (JPD) and the City interdepartmental fees were received and updated in the financial model. FY17 Proposed budget now estimates a ($482,500) deficit at this time (down from the $603,600 deficit at the February 11 meeting). FY 18 Proposed budget is anticipating a ($499,400) deficit (down from the $627,500 deficit at the February 11 meeting). The following reiterates the major changes in the budget since the last biennial (FY15/16) budget.

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

PERSONNEL: No Change since last finance meeting. 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. Please note that the costs do include the increase for the Badging Officer to a full-time (or two part-time) employees, as discussed last year during budget cycle and again at the September 8, 2015 Airport Board meeting. Staff is also looking at an Operator In-Training position (change, not addition) due to the number of experienced operators expected to retire over the next year or two. This has been a looming concern from the Airfield and Board.

SERVICES & CHARGES: Update of the major Services and Charges line items are highlighted below. ARFF, Airport (JPD) Security and Full Cost Allocation are now updated in the budget. The projected increases are slightly lower than estimated at the February 11 finance meeting:

FULL COST ALLOCATION: Costs are projected lower for FY 17/18. Annual costs have dropped ($51,500). This represents a reapportionment of the costs with other departments.

ARFF: Final Fire Department (ARFF) budget numbers are in the budget. The final numbers are slightly lower for the contractual ARFF compared to our February 11 estimates. ARFF contractual is still nearly double due to the increase to Index C coverage. The increase is $487,400 for FY17 and $477,800 for FY18.

AIRPORT SECURITY (JPD): Budget numbers are now final for Juneau Police Department Officers. FY17 JPD costs reflect an increase of $70,400 over the Updated FY16 budget and FY18 shows an increase of $71,300 over the Updated FY16 budget. These costs may go down slightly in the future. Once the 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).

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 and Operations budget. With those projects completed, the cost of painting/marking the full runway/taxiway fall back into our budget. This 'deferred' cost is back in FY17 budget at an annual cost of $69,000, and $78,000 for FY 18. At the February 11 Finance meeting, it was noted that the Airport will have another (federal) project which will require repainting the numbers for the RWY 9/27 conversion for FY 17. This project will only pay for the 'numbers' to be painted; the remaining paint markings will still be required through the airport budget. In the scope of the painting requirements, it is small. The Taxiway is scheduled for rehab in 2019, which will be a savings for that budget year.

Overall proposed budget expense increases are $711,300 for FY17 and $747,600 for FY 18 as compared to FY16 Approved. Total proposed budget expenses are $6,937,000 for FY17 and $6,973,300 for FY18.

REVENUES:
There are no changes to the projected revenues since the February 11 Finance meeting. At this time, the Revenues are slightly increased for both FY17 and FY18 due to an increased number of proposed landed aircraft. Fee increases are 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 has set up a worksheet which would generate the estimated revenue for each category of fee increase.

Reminder: the Airport Revenue Surplus funds cannot be used to balance the budget due to pension liability. The financial model breaks out the shortfall as follows:

FY 17 ($484,500 deficit)
$266,167 GA/135 portion
$218,333 Air Carrier (121)

FY 18 ($499,400 deficit)
$272,272 GA/135 portion
$227,128 Air Carrier (121)

Air Carrier (121) Discussions:
The shortfall on the JPD/security end is calculated by the number of hours required at the checkpoint (75%) which is all air carrier compared to the remaining (25%) as calculated based on financial model computations (50/50 to each terminal and airfield cost center, then the 85/15 split for the airfield portion). The majority of this security cost center is borne by the large air carriers. After calculating the 75% portion of security costs, applying the TSA LEO reimbursement of $131,400 annually, the balance remaining is paid through a per passenger security screening fee. This was calculated at $1.08 in FY 15, but due to cost increases, this now equates to $1.43 per screened passenger. Staff suggests this fee be increased for the 121 air carriers. This would generate an additional $104,800 for FY 17 and $105,400 for FY 18. This would still leave a funding gap on the 121 air carrier portion of $113,533 for FY 17 and $121,728 for FY 18. Additionally, the regulation should differentiate between signatory and non-signatory airline fees for airport security screening.

Finance Committee Motion: *Approve the addition of the word 'Signatory' to the Airline Fee for Airport Security Screening category; and increase the Signatory Airline Fee for Airport Security Screening rate to $1.43/per screened, enplaned passenger for air carrier passengers.*

While it has only occurred once since this fee was established, the Airport proposes a non-signatory rate for security screened passengers at 25% higher than the signatory fee. This is a standard practice in all of our rates and fees.

Finance Committee Motion: *Approve the establishment of the Non-signatory rate to the Airline Fee for Airport Security Screening at a rate of 25% more than the than the published signatory rate for Airline security screened, enplaned passengers.*

The balance for the Air Carrier (121) portion of the budget deficit would be $113,500 for FY 17 and $121,728 for FY 18. This would require an increase of $0.18 to the Landing Fee rates (from $2.38 to $2.56); and populate a non-signatory landing fee of $3.20.

Any changes to the 135/GA fuel flowage fees (FFF) will also change the non-signatory fuel flowage rate. The non-signatory revenues are allocated 85/15 between the Air Carrier (121) and 135/GA and therefore, could impact the bottom line Air Carrier requirement. The increase of the Landing Fee rates will wait until FFF (or other rate increases) is established.

135/GA Discussions:
As stated at the February 11 meeting, 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'.

SUGGESTED CHANGES:
In addition to the proposed motion on the Airline Fee for Airport Security Screening (presented earlier in this meeting), staff will bring the suggestions for Rates and Fees increases to the Finance meeting, as well as resulting revenues that each fee change generates. Staff will also have the worksheets and models so that any fee changes proposed can be manipulated during the meeting. Motions for rates/fees increases may be made/approved at the Finance meeting. The Rates and Fees Regulation will also be available at the meeting for suggested changes. This may include 135/GA fuel flowage fee increases, land leases increases, other non-aviation increases, etc.

The Finance Committee will need to:

1) Approve a balanced FY17 (and proposed FY18) budget;
2) Establish any rate changes (within the proposed FY 17/18 budget) in the form of a Rates and Fee Regulation amendment.

If this is not accomplished at this Finance meeting, another meeting may be required. The budget and Rates/Fees Regulation amendment requires full Board approval (and subsequent public process for the regulation) before final approval/adoption by the CBJ Assembly.

IV. Revenue Surplus Account/Airport Fund Balance. This is updated to reflect the current proposed budget for FY 17. The Revenue Surplus Account would *currently* require $1.734 million. This is an increase to the $1.5 million previously established in FY16.

At the February 11 Finance meeting, staff briefed the committee on the State Retirement System deficiency for Public Employees Retirement System (PERS). Essentially, these retirement systems were underfunded for years and now see 'unfunded' pension liability.

While the Airport had creeped back up on its Fund Balance (Revenue Surplus) to $3.738M at the close-out of FY15, roughly $1.9 million must be accounted for as a pension liability. This means only $1.825 million 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 $1.579 million in Fund Balance. This is short of the $1.734 million that would be required for FY17 3-month reserves.

After discussing this with the Finance Committee, 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 of 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.

V. **Jetbridge 5 Repairs.** The jetbridge is operational now after replacing the power board. Staff is still moving forward on long-term solutions to avoid power interruption issues as well as local/quick support. AMS (contractor that works with Alaska Air jetbridges) came to JNU on February 19 and reviewed the system. The cost of a long-term solution (when known) will be proposed to be funded from the Revenue Surplus Account (Airport Fund Balance). This may be briefed at a Board meeting.

VI. **State Funding Match.** Recap: 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). Staff continues researching this match. Regardless, JNU will look at ways to match AIP grants for FFY 17 and beyond if the State does not budge. 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.

VII. **Other items for discussion.**

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