Juneau International Airport
Finance Committee Meeting
March 6, 2017, 9:00 a.m.
Alaska Room

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

II. **FY 16 Actual**. **(See Attachments #1, #2 and #3)** At the March 2016 Airport Board Finance and Regular Board meeting, Staff projected FY16 budget to be in the ***black*** by $275,800. FY16 actual revenues came in $252,900 higher than anticipated, while FY16 actual expenses were $357,500 less than projected. **The result is FY 16 bottom line ending up $886,251 in the black.** This adds to the Airport Fund Balance.

Revenues: Fuel Flowage Fees (large carrier) up $93,900 (more gallons pumped than anticipated), Landing Fees up $71,200 (more aircraft landings) and a small increase in interest income (due to Airport Fund Balance) $33,400, Rentals/concessions up $45,300 and Other/fines/misc. up approximately $10,000.

Expenses: Personnel costs down $67,568 (long term employee retirement and increase staff time charged out to capital projects), Material/Commodities/Services down $362,079 ($192,500 less fuel/gas/oil; $39,400 less electrical consumption; $130,000 less contractual/management/repairs contracts such as JPD security, airfield paint/markings contracts).

III. **FY17 Projected & FY18 Updated Budgets. (See Attachments #1, #2, #3, #4 and #5.)** The FY 17 &18 budgets approved by the Airport Board and Assembly showed both years with a deficit budget. Increases to Airport Rates & Fees were approved for: Large aircraft Landing Fees, small aircraft Fuel Flowage Fees, and Airline Fees for Passenger Screening starting July 1, 2016. These fee increases were anticipated to make up roughly half the deficit, while applying Airport Fund Balance ($137,600) to make up the other half of the deficit for FY17. FY18 was submitted with a deficit of $157,600, knowing that the budget would be revisited this year.

Changes are expected to both FY17 & FY18 budgets, largely due to anticipated change in runway deicer and sand; as well as anticipated decreases in revenues. The following Expenses and Revenues discuss the changes to the budgets when compared to the approved FY17/18 budgets.

<u>**EXPENSES**</u>: **(Detailed in Attachment #4)**
<u>Supplies</u> (Deicing Chemicals/Sand): The Airport will be phasing over to NewDeal deicing chemical. The Airport has been using ammonia-based urea which has worked well in our Juneau climate over the years. More importantly, the cost for urea (pelletized) has been substantially cheaper than other deicing chemicals especially those in liquid form (additional shipping cost by weight). The switchover is two-fold: 1) enough time has elapsed that there are more choices in alternative deicing chemical and the prices have come down substantially; and 2) our Storm Water Pollution Prevention Plan (SWPPP) Multi-sector general permit (DEC) has shown elevated ammonia level run-offs to effluent waterways above the permitted level. This is a violation of our DEC permit. Even with the mild winters and limited use of deicing chemicals used; the Airport continued to violate the permitted levels of ammonia. The Airport must show due diligence to

mitigate the ammonia discharge: *change deicing chemicals to ammonia-free*. Our plan is to 'ride' the State of Alaska DOT contract for this deicer. Other airports, including Sitka, approve of the New Deal deicer and say it works well with our climate.

The cost for the New Deal is a little more than double than that of urea. This takes into account the different mixing ratios compared to urea. The updated FY17 & FY18 budgets, shown in Attachments #1-#3, reflect the increased cost of New Deal deicer; up $83,000 and $192,900, respectively. This will gradually phase in the new deicer over 2 years and allow the phase-out of urea (use it up).

Additionally, the airfield crew has been using up old sand inventory that was in the back of the sand storage building. This 'back up' sand will be used this year. This means that we will need to order a full inventory (worst case snow/ice year), not just ordering the replacement amount used over the winter. This will add on $35,000 (additional) for each FY17 & FY18 budgets.

Aircraft Rescue & Fire Fighting (ARFF) shows increase of approximately $15,000 in FY18 for chemicals, fuel, equipment, etc. for the additional (new) ARFF truck.

<u>Personnel:</u> A minor decrease in Personnel costs for FY17 projected (down $9,500), while FY18 is anticipating a larger decrease of $62,600 due to retirement of some long-term employees (new employees coming in at lower wages).

<u>Services/Charges:</u> JPD/Airport Police/Security projects a reduction of $53,400 for FY17 contractual/personnel costs (less overtime used); however FY18 anticipates an increase of $25,000 in contractual/personnel costs (for overtime).

<u>FY18 Other</u>: Travel/Training is reduced for ARFF by $8,100 in FY17, and $6,600 in FY18.

The overall net increase for Expenses (compared to approved budget) is $43,900 for FY17, and $199,700 for FY18. FY17 will require Supplemental Spending Authority for the addition anticipated expenses.

<u>REVENUES</u>: (Detailed in Attachment #5)
Revenues are projected to decline slightly from what was originally budgeted. FY17 Revenues anticipated to see a net decrease of $58,500 (from approved budget); and FY18 Revenues anticipated to see a net decrease of $80,700 (from approved budget). Most of the decreases are a result of Delta Air Lines reducing to summer (seasonal) operations, rather than year-round. We also anticipate some minor revenue increases which will offset some of the decreased revenues.

<u>Revenue Decreases</u>: Rentals/Jetway (5) down $24,000 for both FY17 & FY18 (Delta Air); Landing Fees down $112,200 in FY17 and down $130,800 in FY18 (Delta Air); Security Screening Passenger Fees down $19,500 in FY17 and down $23,100 in FY18 (Delta Air); and Fuel Flowage Fees down $7,200 in FY17 and down $9,700 in FY18. We also show minor decreases in TSA Reimbursable Agreement of $3,700 for both FY17 & FY18.

<u>Revenue Increases</u>: Rentals (Restaurant Concession, Water/Sewer) up $50,000 for both FY17 & FY18 *(less Jetway 5 decreases above for a net increase of $26,000)*; Proceeds from sale of surplus equipment $40,000 for each FY17 & FY18; and misc. small revenue increases of $18,100 for both FY17 & FY18.

If Delta Air Lines returns to year-round service, we would anticipate revenues commensurate with the year-round operations.

The overall net decreases for Revenues (compared to *Approved* budget) is $58,500 for FY17, and $80,700 for FY18.

<u>Bottom Line FY17 & FY18 Budgets</u>:
The bottom line for FY17 shows a $240,000 deficit (*of which $137,600 was previously approved to be covered through Airport Fund Balance*); and FY18 shows a $438,000 deficit (*previously presented as a $157,600 deficit*).

IV. Budget Shortfalls

The bottom line deficits shown on Attachment #3 are broken down as follows:

FY 17 ($239,750 deficit), *note: spreadsheet table rounds to ($240,000)*

$ 195,480	GA/135 portion
$ 44,270	Air Carrier (121)

FY 18 ($436,736 deficit), *note: spreadsheet table rounds to ($438,000)*

$ 222,908	GA/135 portion
$ 213,828	Air Carrier (121)

Last year, the Airport raised rates for large aircraft Landing Fees, small aircraft Fuel Flowage Fees and Airline Fees for Passenger Screening; effective July 1, 2016 (Passenger Screening Fees effective May 1, 2016). These increased fees would cover half of the proposed deficit while the remaining ($137,600) would be covered by Airport Fund Balance. At the March 24, 2016 Finance meeting, the deficit breakdown showed a disproportionate shortfall in which the GA/135 group allocation was 99% of the ($251,200) shortfall. Regardless, the Air Carriers (Alaska and Delta) stepped up to the plate to take on the majority of the shortfall with their rate increases. With the addition of the New Deal chemical in the budgets (and based on the 85/15 airfield allocations), the FY18 budget shows the deficit almost equally split between the user groups.

Staff has assessed several factors: The Airport has an inequity among the user groups (deficit not 85/15 split); there is a known increase to a major budget item (New Deal chemical); and the Airport has shown in recent years to end up in the 'black' despite projections of a deficit.

<u>Suggested Budget Balance</u>:
There are a few ways to approach the projected deficit:

1) Raise rates to cover full shortfall; or
2) Raise some rates combined with use of Airport Fund Balance; or
3) Use of Airport Fund Balance.

After carefully assessing**, Staff recommends using Airport Fund Balance to balance both FY17 projected budget, as well as FY18 updated budget.** See discussions of Airport Fund Balance, below, in Section V. Airport Fund Balance. The Airport Fund Balance can support these deficits. ***With this in mind, user groups should be prepared for future rate increases (FY19 and beyond) and plan accordingly.***

In case the Committee wants to explore rate increase options, Staff will bring the worksheet for Rates and Fees increases to the finance working group meeting. This will show 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.

V. **Airport Fund Balance.** This has been updated to reflect the current proposed budget for FY 18. The Airport Fund Balance would *currently* require $1.766M. This is an increase from the $1.706M previously established in FY17.

At the close-out of FY15, Airport had $3.738M Airport Fund Balance. FY16 ended in the 'black', but the Board also approved the use of Airport Fund Balance to use as forward funding for several Capital Improvement Program (CIP) local match (scheduled for repayment with a future PFC application).

Between FY16 year-end fund balance, the CIP match transfers and the 3-month operating reserves (*see below for discussion on the PERS retirement liability), the Airport has $2,923,400 ($2.923M) of unrestricted Fund Balance available (*please note that this does not include the previously approved $137,600 fund balance use to balance FY17*). This means that we can apply the projected deficit of $240,000 for FY17, and the projected deficit of $438,000 for FY18 to the $2,923,400 Fund Balance, and project a remaining *Unrestricted* Airport Fund Balance of $2,245,400 at close-out of FY18.

**Reminder: At the February 11 and 29 2016, Finance meetings, 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. It has been determined that while the Airport maintains an Airport Fund Balance with a 3-month operating reserve, this would suffice for the PERS liability, and no additional reserve would be required.*

VI. **Finance Committee Action.**
Based on the above discussions and recommendation, Staff makes the following suggested motions:

Finance Committee Motion: *"Approve the FY17 Projected Budget and the FY18 Updated Budget, as show in Attachments #1, #2 and #3 (dated March 6, 2017), with the use of $240,000 of Airport Fund Balance to balance FY17, and the use of $438,000 of Airport Fund Balance to balance FY18; and request Supplemental Spending Authority from the Assembly in the amount of $43,900, for FY17 projected expense increase; and forward to the Airport Board for approval"*.

VII. **Other items for discussion.**

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