Meeting: 04/19/17
Agenda Item No. 14

City of Santa Barbara
Airport Department

DATE: April 19, 2017

TO: Airport Commission

FROM: Hazel Johns, Airport Director

SUBJECT: Proposed Operating Budget for Fiscal Years 2018 and 2019

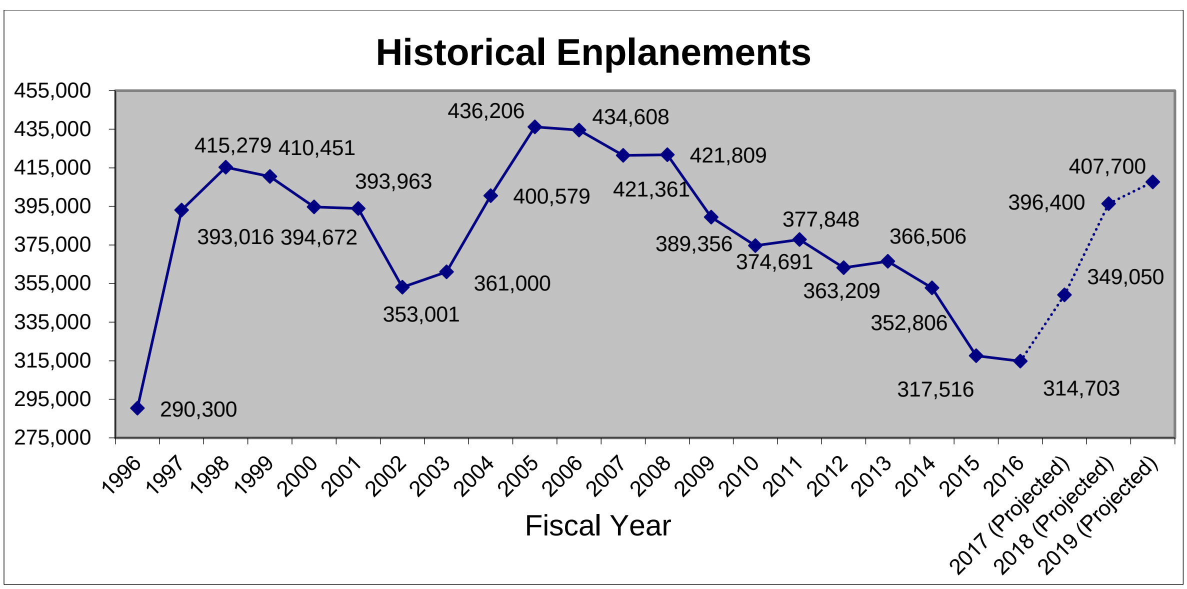
RECOMMENDATION:

That Airport Commission recommend approval of the proposed Fiscal Year 2018 and Fiscal Year 2019 Operating Budget for the Airport.

DISCUSSION:

Significant Issues Affecting Development of the Budget

Effective April 4, 2017, American Airlines daily flight to Dallas-Fort Worth will be upgauged from a 76-seat aircraft to a 128-seat A319. Effective June 2017 United Airlines will upgauge three 50-seat aircraft to one 70-seat, one 128-seat, and one 150-seat aircraft. Alaska Airlines has notified the Airport that the summer seasonal flight to Seattle will not occur during the summer of 2017 due to equipment shortages, but anticipates that it will return in the summer of 2018. The net effect of these changes is an estimated 13.5% increase in passengers for FY 2018 vs. FY 2017, and a further 3% increase for FY 2019 vs. FY 2018. The total number of enplanements would be the highest since FY 2008. This continues a strong upward trend in FY 2017, which is projected to finish the year up 1% vs. budget, and 11% vs. FY 2016.



The following chart shows projected passengers, broken down by airline to illustrate the air service changes described above.

FY 2017 - 2019 Projected Passengers

	United	**Alaska**	**American**	**Totals**
FY2017 1st Half Actual	185,455	60,294	113,030	358,779
FY2017 2nd Half Projected	166,766	45,835	126,749	339,350
FY2017 YE Projected	*352,221*	*106,129*	*239,779*	*698,129*
FY2018 Capacity Increase	86,559			86,559
FY2018 Projected	*438,780*	*92,330*	*261,754*	*792,864*
FY2019 Projected	*447,556*	*106,129*	*261,754*	*815,439*

Budget Balancing Strategy

To balance the budget, the Airport reviewed all expenditures and made reductions where possible.

The following assumptions were used in preparing the FY 2018 – FY 2019 budget: passenger traffic at the levels described in the table above with a 13.5% increase in FY 2018 and a 3% increase in FY 2019; airline terminal concession revenues based upon FY 2016 and mid-year FY 2017 actual revenues and passenger increases; general aviation activity to remain stable compared to FY 2017 projections; commercial/industrial revenue to remain stable; non-commercial aviation lease revenue to increase substantially when the 495 Fairview lease expires and the building reverts to Airport control.

Additionally, the Airport proposes to increase airline rates and charges by 3% for building rental and landing fees in both FY 2018 and FY 2019. The increased landing fee is also applicable to transient general aviation aircraft greater than 10,000 lbs. No changes are proposed to fuel flowage fees. The Terminal Long Term Parking Lot daily maximum rate is proposed to increase from $12 per day to $13 per day.

Summary of Proposed Fee Changes

Description	**FY17 Actual**	**FY18 Proposed**
Terminal Building Rental (sq ft/year)	$101	$104
Landing Fees (per 1000 lbs.)	$3.88	$3.99
Boarding Bridge Fixed Cost Center (per turn)	$37	$46
Remain Overnight (RON) Fee (per night)	$37	$46
Terminal Long Term Parking Daily Maximum Rate	$12	$13

Narrative Analysis of Revenues:

As an Enterprise Fund, the Airport's budget has been prepared based on forecasted revenues from tenant rentals and user fees.

Revenue assumptions for FY 2017 projections and explanation of material budget variances:

- Commercial and industrial revenue target is expected to be 1.2% above budget, with limited vacant properties.
- Non-Commercial Aviation (general aviation) revenues are expected to be 3.6% above target due to increases landing fees and fuel flowage fees, which are forecast to have the greatest variances above budget, at 4.2% and 11.4% respectively. Building rentals are forecast at budget.
- Airline Terminal revenues at the restaurant and gift shop are projected to be below budget by 5% and 10%, respectively. The FY 2017 budget for the restaurant and gift shop was based upon mid-year FY 2016 actual revenues, and revenues for the second half of FY 2016 were significantly less than the first half. Parking revenues are projected to be 7% above projections due to increased revenue per enplanement of 10% vs. the same period in FY 2016. Rental car revenues are projected to end the year 6.7% below budget, but up 2% vs. FY2016.
- Overall Commercial Aviation revenues will be slightly above target at 2.3% due to airline negotiated rates and charges and actual usage. Landing fees from the airlines will exceed target by 12% due to aircraft upgauging and the FY 2017 budget assumption that the Dallas-Fort Worth flight would take advantage of the Airport incentive program to waive landing fees for one year. Building rental from the airlines will be at target. The FY 2017 budget for Aircraft Remaining Overnight (RON) forecast two aircraft per night; actual usage has been three to four per night. This impacts the budget for boarding bridges negatively because it reduces the number of boarding bridge “turns”.

  Finally, terminal employee parking will be significantly under budget around $26,100. The budget for FY 2017 was based upon a parking rate of $25/month per employee. Non-airline employees at the Terminal, e.g. TSA and concessions employees, were originally included in the budget, but have not been billed as the Airport has been in discussions with TSA regarding payments for its staff.

- Other revenue is above budget at 1%, including reimbursement of $691,505 from the Development Fund for expenditures made to prior to the sale of property at 6100 Hollister Avenue to Direct Relief.
- Overall FY 2017 revenues are projected to be 1.6% above target at $17.6 million.

Revenue assumptions for FY 2018 and FY 2019

- Commercial and industrial revenues are projected based upon possible building revenue, increased by a 3% CPI adjustment each year and a 2% vacancy rate. There are a number of significant leases that expire during FY 2018 and FY 2019. Most of these tenants (e.g. MariPro and National Security Technologies) were assumed to seek new leases, but with no CPI adjustment in the first year. One major exception is Teledyne, whose lease expires in November 2017. Teledyne will vacate the building, which is forecast to have a 6-month vacancy period and will result in the loss of $150,000 ($25,000 monthly) in building rent. Rental income from commercial/industrial development at 6100 Hollister Ave. ($430,000 annually, split with Development Fund) was assumed to begin January 1, 2019 and revenue from the automobile dealership at 6210 Hollister Ave. ($324,000 annually) was assumed to begin July 1, 2019.
- Non-Commercial Aviation overall revenue is projected to increase 12.5% for FY 2018 and 46% for FY 2019. Landing fee revenue is forecast at FY 2017 projected landed weights with 3% increases each year in the landing fee rate, fuel flowage was forecast at FY 2017 projected levels, and building rental was calculated at possible building revenue with a 3%

CPI adjustment each year and 2% vacancy rate. The major exception to this was for the FBOs and the 495 Fairview Building. Lease income for the FBOs was assumed at status quo levels while the FBO RFP process occurs. The 495 Fairview Building master lease expires in May 2018 and has one tenant (FedEx) with a lease that extends beyond this date. Lease revenue from the remainder of the hangar spaces is assumed to begin in August 2018 (10 months of rent are included in the FY 2019 budget), which is approximately $1.5 million in additional revenue for FY 2019.

- Terminal revenues are dependent upon enplaned passenger levels. With passenger levels projected to increase 13.5% in FY 2018 and 3% in FY 2019, terminal revenues for concessions are projected to increase in a proportional manner relative to FY 2017 projected actuals. Rental car revenues are projected to increase by approximately half of the passenger rate in FY 2018, or 6.5%. A new ground transportation program is anticipated to raise revenues 809% over FY 2017. A new TSA building rental agreement took effect August 2017. Finally, the Airport has contracted a new advertising firm, which is projected to increase the advertising revenue to the Airport in FY 2018.
- Commercial Aviation revenues for airline building space are projected at currently leased space and an increase to the rental rate of 3% each year. Landing fees are based upon projected airline landed weights, increasing 17% in FY 2018 and 2% in FY 2019, and increases to landing fees of 3% each year. Based upon actual usage of the boarding bridge and aircraft remaining overnight (RON), the fee for both is proposed to increase from $37 to $46 in FY 2018. Airport staff met with airline representatives on February 21, 2017, who provided input on the airline rates and charges.

<u>Changes in fees with related revenue impacts:</u>

The FY 2018 budget includes a proposed increase to the Terminal Long-Term Lot daily maximum from $12 to $13. A survey of comparable California airports found a long term parking median rate of $13 and an average rate of $14. The estimated impact of an increase to the parking rates and parking demand is italicized in the chart below.

	Revenue Impact for Reduction in Demand of:					
Parking Revenue Option	**0%**	**2%**	**4%**	**6%**	**8%**	**10%**
Increase long-term lot daily maximum by $0.50 (4.2%)	$101,950	***$50,975***	$0	-$50,975	-$101,950	-$152,925
Increase long-term lot daily maximum by $1.00 (8.3%)	$203,900	$150,886	$97,872	***$44,858***	-$8,156	-$61,170

<u>New revenue line items</u>

No new revenue line items.

Narrative Analysis of Expenditures

<u>Expenditure assumptions for FY 2017 projections</u>:

- Salaries and Benefits have been projected to reflect vacancies throughout the year in Facilities and Custodial Maintenance, Security, Certification and Operations and projected vacancy in Business & Property Management. Vacancy savings are projected around 8.7%, or $550,000.
- Total Materials & Supplies will be under budget at 7.3%, or approximately $500,000. The budget includes $227,000 for the grant match for the Runway 7-25 Overlay project, which

will be requested to be carried forward and spent in FY 2018, pending availability of discretionary AIP grant funds. If the grant match is excluded from the budget calculations, savings are closer to 4.3%. There have been some savings in utilities expenditures vs. budget of approximately $90,000. Staff also tries to make miscellaneous savings throughout the budget.

- Special Projects primarily includes the parking shuttle operation. No usage is projected for the parking shuttle, but there may be some slight usage in June.
- Capital transfers include a transfer to the T-Hangar Fund to cover a FY 2016 year-end reserve balance of -$23,034. An adjustment will be requested during the third quarter or at year-end. A proposed additional expenditure of $505,000 for replacement of the airport parking revenue control system is also included in FY 2017.
- Total Expense including capital transfers for FY 2017 is projected to be under budget by 3.4%, at $16.9 million.

<u>Expenditures assumptions for FY 2018 & FY 2019</u>

Projected expenditures for FY 2018 & FY 2019 have been adjusted for salaries and benefits, allocated costs, and ARFF and engineering services.

The supplies and services budget has been adjusted downward slightly for electric utilities based upon FY 2016 year-end and FY 2017 mid-year actuals. The budget has been increased for a number of items, including:

- $91,000 for legal services for development-related issues, such as the 495 Fairview lease expiration, Fixed Base Operator (FBO) selection process, and Taxiway H Extension project.
- $128,000 for staffing the new ground transportation program
- $50,000 for Facilities Maintenance contracts in FY 2019 related to the 495 Fairview Building

Special Projects has an additional $270,000 budgeted for FY 2018 and corresponding amount for FY 2019 in anticipation of restarting the shuttle to Long Term Parking Lot #2 for certain periods from June through December.

Narrative Analysis of Programmatic Changes

<u>Significant changes in P3 objectives by program.</u> No significant P3 changes.

<u>Special projects and/or new initiatives contained in budget</u> – A new ground transportation program will be presented to Council for adoption during FY 2017. For the implementation of the program beginning in FY 2018, $128,000 has been included in the budget for enforcement at the Airline Terminal. Staffing will be provided by the parking management contractor for approximately 16 hours per day at a rate of $22 per hour. The capital budget includes $81,500 to purchase equipment to track usage by ground transportation providers. The FY 2019 budget also includes $19,500 for ongoing warranty and support agreements for the equipment. Fees of $3 per pickup are estimated to generate $180,000 in annual revenue.

<u>Service Reductions or Enhancements</u>

Long Term Parking Lot #2

Based on the significant increase in passenger projections, $270,000 has been budgeted for FY 2018 in anticipation of restarting the shuttle to Long Term Parking Lot #2 for certain periods from

June through December. This budget is based upon one shuttle bus and driver vs. the two buses and drivers during previous shuttle bus operations, with the primary objective of moving Terminal employees to the remote lot as needed. Efforts will be made to avoid starting the shuttle as much as possible.

Significant reallocation of resources between programs – No significant reallocation of resources between programs for FY 2018 or FY 2019.

Other Discussion Items:

All proposed staffing changes and how funded – In December 2017, the Airport submitted five position change requests to Human Resources as part of the FY 2018 – FY 2019 budget cycle. The change requests included:

1. One 0.75 FTE Administrative Specialist to one 1.00 FTE Administrative Specialist in the Certification & Operations Division. To support increased Airport Badging Office responsibilities required by TSA.
2. One Senior Property Management Specialist to one Airport Business Development Supervisor in the Business & Property Management Division. To create greater focus on proactive business development as well as supervisory responsibilities.
3. One new Airport Maintenance Coordinator in the Airport Maintenance Division. Increase in Airport maintenance responsibilities with construction of light industrial buildings and reversion of 495 Fairview leasehold to the Airport.
4. One new Senior Airport Operations Specialist in the Certification & Operations Division. To allow Airport Operations staff to fulfill all FAA-required duties, such as airfield inspections, wildlife response and mitigation, airport condition reporting, and identifying conditions for corrective action.
5. Three new regular Airport Security Aides (currently Airport Operations Aides) in the Airport Security Division. Replace long-standing hourly positions with full-time regular positions.

Funding of the proposed positions is based on the Department's revenue line items. The net impacts are listed in the table below.

Proposed Position Changes- Net Budget Increase

Position Change	**FY 2018 Cost**	**FY 2019 Cost**
1. 0.75 FTE to 1.00 FTE Administrative Specialist	$14,214	$18,856
2. Sr. Property Management Specialist to Airport Business Development Supervisor	$12,882	$12,743
3. One Airport Maintenance Coordinator	$87,539	$93,487
4. One Senior Airport Operations Specialist	$87,123	$93,050
5. Three new regular Airport Security Aides	$90,660	$100,838
TOTAL	*$292,418*	*$318,974*

Proposed capital projects contained in budget

For FY 2017 the following project is proposed:

- Replacement of airport parking revenue control system. The current system fails under rain conditions and has deteriorated to the point of replacement. The Airport is proposing to switch to the current vendor (Skidata) used by Downtown Parking and Waterfront based upon their experience of the system's reliability and for consistency across the City, which will require City Council action. (FY 2017: $505,000 total)

For FY 2018 and FY 2019 the following projects are proposed:

- Maintenance of commercial/industrial buildings, which the Airport has a contractual obligation to maintain. Most of these buildings were constructed during WWII and some require significant repairs, e.g. HVAC, roof, or plumbing and electrical replacement or repairs. These leased buildings generate approximately $4.4 million annually in rental income. Specific priority projects for FY 2018 include reroofing and painting Building 305 and painting Hangar 2. (FY 2018: $150,000, FY 2019: $150,000)
- Deteriorated parking lots at the Airline Terminal, car rental QTA, or leased by Airport tenants. (FY 2018: $150,000, FY 2019: $150,000)
- Replace current property management and accounts receivable systems. (FY 2018: $75,000)
- Airline Terminal maintenance. (FY 2019: $50,000)
- Mitigation, monitoring, and reporting for the Goleta Slough Tidal Restoration, a coastal development permit condition for the 2006-2007 Airfield Safety projects. (FY 2018: $50,000)
- Airfield Operations Area (AOA) pavement maintenance. (FY 2018: $150,000, FY 2019: $150,000)
- Complete top priority repairs to Airport Utility Infrastructure, identified during a system cleaning and visual evaluation of the wastewater collection system. (FY 2018: $50,000, FY 2019: $50,000)
- Install Airport Radio Repeater to improve communications capability via handheld radio between Airport Patrol Officers and City Police officers and dispatch center. (FY 2018: $100,000)
- Improvements to 495 Fairview Hangar such as electrical, roofing, HVAC, and other building systems as necessary. (FY 2019: $250,000)
- Install an automated system to monitor the Airline Terminal exit lane to prevent security breaches. (FY 2019: $150,000)
- Install Vehicle ID System to manage ground transportation system. (FY 2018: $81,500)
- AIP grant match. The Airport match for the AIP grant is 9.34%. The AIP grant provides federal funding of approximately $2.7 million for essential safety and security needs with a favorable City matching requirement. (FY 2016: $432,001, FY 2017: $263,855)

Total project spending for the projects listed above, excluding AIP grant match:

- FY 2017- $1,053,871
- FY 2018- $806,500
- FY 2019- $950,000 (excluding the construction of the Commercial/Industrial Area Development)

Fee Resolution:

The FY 2018 budget includes a proposed increase to the Terminal Long-Term Lot daily maximum from $12 to $13. A survey of comparable California airports found a long term parking median rate of $13 and an average rate of $14. An updated fee resolution document has been provided to Finance staff as required.

Supplemental Items:

<u># of Staffing Hours for proposed Hourly Salaries</u>:

- Security – 7431 - $102,315
  8 Airport Traffic Aides – 913 each at $12.85/hour
  1 Airport Operations Aides – 250 each at $16.78/hour

  All hourly duties are currently performed by one Airport Traffic Aide and one Airport Operations Aide on duty approximately 20 hours per day (there are two 10-hour shifts per day for each job classification) to staff the checkpoint exit lane and provide traffic control at the curb at the Airline Terminal building. The Airport Traffic Aide focuses on staffing the checkpoint exit lane and the Airport Operations Aide focuses on terminal employee screening, escorting and screening deliveries to the secure area, and traffic control at the curb.

  With the creation of three new regular Airport Security Aides (currently Airport Operations Aides) in FY 2018, the hourly salary budget can be reduced by $84,705. In this case one hourly Airport Security Aide working 250 hours annually could provide coverage when permanent staff is unavailable due to illness, vacation, or personal leave.

  Staff has looked at several options, including the use of technology, as an alternative to staffing the exit lane. The FY 2019 capital improvement budget includes an automated terminal exit lane monitoring system that would reduce the need to staff the exit lane. However, no reductions in the FY 2019 hourly staffing have been made. Other airports have indicated that it is useful for staff to aid passengers during a transitional period as passengers adjust to the new exit lane and/or route. Hourly staff savings is estimated at approximately $100,000 annually if an automated system is installed.

- Custodial Maintenance – 7421 - $30,300
  5 Custodians – 320 hours each at $18.54/hour

  Hourly staff is needed to provide on-going custodial services for the Airline Terminal when permanent staff is unavailable due to vacancies, illness, vacation, or personal leave. This is a similar staffing level to FY 2017.

- Certification & Operations – 7441 - $43,112
  2 Airport Operations Specialist – 910 hours each at $22.16/hour

  During FY 2017 hourly Operations Specialist positions have been used to back fill vacant full-time Operations Specialist positions.

PREPARED BY: Administration Division

ATTACHMENT: Forecast of Revenue and Expenses