



City of Santa Barbara
 Airport Department

DATE: March 14, 2018
TO: Airport Commission Budget Subcommittee
FROM: Hazel Johns, Airport Director
SUBJECT: Proposed Operating Budget for Fiscal Year 2019

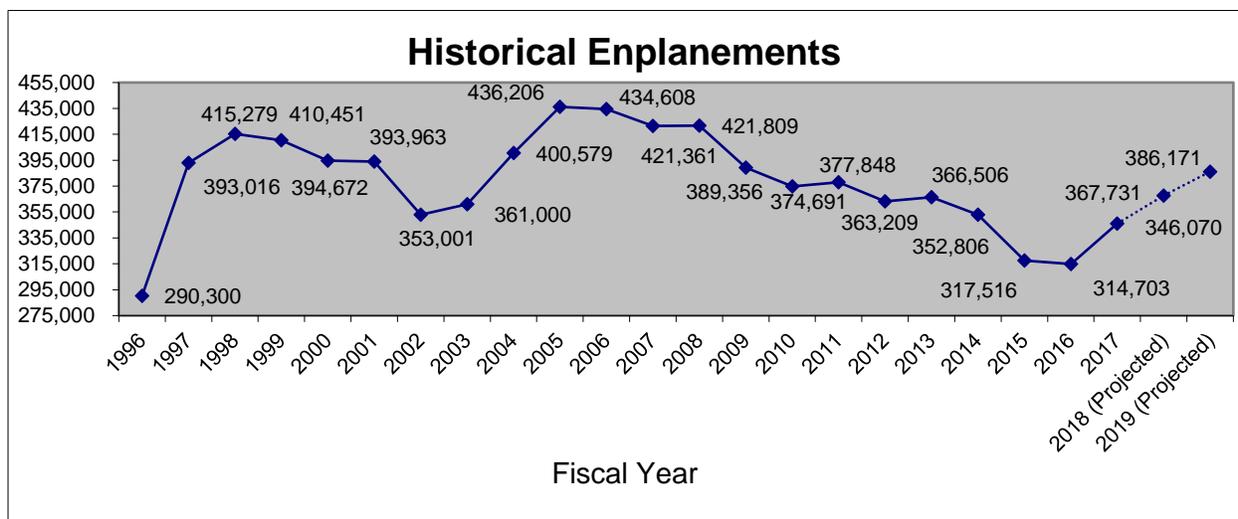
RECOMMENDATION:

That the Budget Subcommittee recommend approval of the proposed Fiscal Year 2019 Airport Operating Budget to the Airport Commission.

DISCUSSION:

Significant Issues Affecting Development of the Budget

Based on currently published airline schedules and prior year load factors, FY 2018 and FY 2019 passengers are projected to increase by 6.3% and 5%, respectively, vs. the prior fiscal year. This continues a strong upward trend since FY 2017, which increased nearly 10% vs. the low point of FY 2016. During the development of the FY 2018 budget, the airlines notified the Airport of significant aircraft upgauging, which was reflected in an estimated passenger increase of 13.5% for FY 2018 vs. FY 2017. The projected lower than budget growth in FY 2018 is related to a combination of factors: aircraft downgauging, often on a seasonal basis in the winter months; and low load factors during the summer months, when large amounts of capacity were added.



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

FY 2018 - 2019 Projected Passengers

	United	Alaska	American	Totals
FY2018 1st Half Actual	196,382	56,001	126,018	378,401
FY2018 2nd Half Projected	191,123	60,982	104,955	357,061
<i>FY2018 YE Projected</i>	<i>387,505</i>	<i>116,983</i>	<i>230,973</i>	<i>735,462</i>
FY2019 Increased Capacity		5,879		5,879
<i>FY2019 Projected</i>	<i>399,398</i>	<i>132,967</i>	<i>239,976</i>	<i>772,341</i>

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 2019 budget: passenger traffic at the levels described in the table above with a 5% increase in FY 2019; airline terminal concession revenues based upon mid-year FY 2018 actual revenues and passenger increases; general aviation activity to remain stable compared to FY 2018 projections; commercial/industrial revenue to remain stable; non-commercial aviation lease revenue to increase substantially when the 495 S. Fairview lease expires and the building reverts to Airport control and increases to the Fixed Base Operator (FBO) leases.

Additionally, the Airport proposes to increase airline rates and charges by 3% for building rental and 2% for landing fees in FY 2019. The increased landing fee is also applicable to transient general aviation aircraft greater than 10,000 lbs. The boarding bridge and Remain Overnight (RON) fees will decrease by 2% for FY 2019. No changes are proposed to fuel flowage fees or parking rates.

Summary of Proposed Fee Changes

Description	FY18 Actual	FY19 Proposed
Terminal Building Rental (sqft/year)	\$104	\$107
Landing Fees (per 1000 lbs.)	\$3.99	\$4.07
Boarding Bridge Fixed Cost Center (per turn)	\$46	\$45
Remain Overnight (RON) Fee (per night)	\$46	\$45

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 2018 projections and explanation of material budget variances:

- Commercial and industrial revenue target is expected to be 5.7% above budget, with limited vacant properties. The Airport also received reimbursement of \$110,500 from a former tenant for new carpet and interior painting in Building 114 after the tenant vacated the building.
- Non-Commercial Aviation (general aviation) revenues are expected to be 2.2% above target due to increases in landing fees and fuel flowage fees, which are forecast to have the greatest variances above budget, at 0.8% and 21.3% respectively. Building rentals are forecast at 1.2% below budget.
- Airline Terminal revenues for the restaurant are projected to be below budget by 7.4% and 14% above budget for the gift shop, based upon actual revenues to date and forecasted passengers for the remainder of the fiscal year. Parking revenues are projected to be 2.2% below projections due to a decreased number of passengers vs. the amount budgeted for FY 2018. Rental car revenues are projected to end the year 0.8% below budget. With the retirement of the Airport Operations Manager and a replacement starting in December 2017, the Commercial Ground Transportation Program is not anticipated to collect any revenue until December 2018.
- Overall Commercial Aviation revenues will be slightly below target at 1.8% due to airline negotiated rates and charges and actual usage. Airline fuel flowage fees will be below budget by 24%. Anecdotally, aircraft have been fueling in areas of the country where fuel is cheaper, and arriving at SBA without the need to take on more fuel. Landing fees from the airlines will be below target by 1.8% due to aircraft downgauging. Building rental from the airlines, Aircraft Remaining Overnight, and Boarding Bridge usage will be at target.

Finally, terminal employee parking will be significantly under budget by \$13,150. The budget for FY 2018 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 14.7%, including interest income above budget at 31%. TSA has not indicated the Law Enforcement Officer (LEO) program will continue beyond March 31, 2018.

Airport has requested an additional \$258,604 from FAA to reimburse engineering staff costs associated with the Airfield Electrical and North GA Pavement Rehabilitation AIP grant projects. Engineering staff expenditures occur in the Operating Fund. Since this request is pending review from FAA, no reimbursement was included in FY 2018 projections. If approved, the Airport

would seek to transfer the funds during the FY 2018 Third or Fourth Quarter budget adjustment process.

- Overall FY 2018 revenues are projected to be at target at \$18.4 million.

Revenue assumptions for FY 2019

- Commercial and industrial revenues are projected based upon potential 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 2019. Most of these tenants (e.g. Maripro, National Security Technologies, and Ag RX) were assumed to seek new leases, but with no CPI adjustment in the first year. The vacancy at Building 114 (\$19,200/month) is expected to continue until October 2018 with no change to the prior tenant's rate. The monthly rent from the restaurant will be decreased by 25% for a one-year period as it re-concepts. The High Sierra Grill concept did not seem to resonate with local restaurant patrons. Although not included in the FY 2019 budget, rental income from commercial/industrial development at 6100 Hollister Ave. (\$271,800 annually, split with Development Fund) was assumed to begin July 1, 2019 and revenue from the automobile dealership at 6210 Hollister Ave. (\$324,000 annually) was assumed to begin January 1, 2020.
- Non-Commercial Aviation overall revenue is projected to increase 67% for FY 2019 vs. projected FY 2018. Landing fee revenue is forecast at projected FY 2018 landed weights with a 2% increase in the landing fee rate, fuel flowage was forecast at FY 2018 projected levels, and building rental was calculated at potential 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 S. Fairview Building. The leases for the FBOs were extended by 2 years while the FBO RFP process occurs. During this time, the lease income from Atlantic Aviation and Signature Flight Support will increase by 25% and 50%, respectively, vs. the current lease rates. The 495 S. Fairview Building master lease expires in May 2018. A settlement agreement with 1998 Ampersand Aviation, LLC f/k/a Ampersand aviation, LLC, and Wendy McCaw has been executed, and includes a \$30,000 monthly rental payment for the space leased by Ms. McCaw. Lease revenue from the remainder of the hangar spaces is assumed to begin in October 2018 (9 months of rent are included in the FY 2019 budget) during a period of rent abatement while the electrical switchgear at the property is replaced. Total rental from the property is approximately \$1.78 million for FY 2019, with an annual amount of \$2.25 million when no rent abatement is included.
- Terminal revenues are dependent upon enplaned passenger levels. With passenger levels projected to increase 5% in FY 2019, terminal revenues for concessions are projected to increase in a proportional manner relative to FY 2018 projected actuals. Rental car revenues are projected to increase by half of the passenger rate in FY 2018, or 2.5%. A new TSA building rental agreement took effect August 2017. Finally, the Commercial Ground Transportation Program is

expected to generate \$133,800 in FY 2018, at an annualized rate of \$173,400. The FY 2019 revenue includes approximately 9 months of new revenue from Transportation Network Companies (TNCs).

- Commercial Aviation revenues for airline building space are projected at currently leased space and an increase to the rental rate of 3% for FY 2019. Landing fees are based upon projected airline landed weights and increases to landing fees of 2% for FY 2019. Based upon actual usage of the boarding bridge and aircraft remaining overnight (RON), the fee for both is proposed to decrease from \$46 to \$45 in FY 2019. Airport staff met with airline representatives on February 22, 2018, who provided input on the airline rates and charges.
- TSA has not indicated the Law Enforcement Officer (LEO) program will continue beyond March 31, 2018.

Changes in fees with related revenue impacts:

No fee changes are proposed.

New revenue line items

No new revenue line items.

Narrative Analysis of Expenditures

Expenditure assumptions for FY 2018 projections:

- Salaries and Benefits have been projected to reflect vacancies throughout the year in Administration, Facilities Maintenance, Security, Certification and Operations, and Business & Property Management. Vacancy savings are projected around 4.5%, or \$307,000.
- Total Materials & Supplies will be under budget at 1.5%, or approximately \$107,500. One major area of savings is \$128,000 related to the staffing of the Commercial Ground Transportation Program. This program will be staffed by Airport staff instead of the parking management contractor staff, and will begin in December 2018. Staff also tries to make miscellaneous savings throughout the budget.
- Special Projects primarily includes the parking shuttle operation to Long Term Parking Lot 2. The shuttle operated for two months from November 2017 to January 2018, which will result in year-end savings of 67%, or \$191,105.
- Capital transfers includes an additional transfer of \$61,135 for the replacement of electrical switchgear at 495 S. Fairview Ave.
- Total Expense including capital transfers for FY 2018 is projected to be under budget by 3.2%, at \$19.4 million.

Expenditures assumptions for FY 2019

Projected expenditures for FY 2018 & FY 2019 have been adjusted for salaries and benefits, allocated costs, and ARFF and engineering services. The budget was also decreased by \$131,840 for Commercial Ground Transportation Program. This program will be staffed by Airport staff instead of the parking management contractor staff.

The budget has been increased for a number of items, including:

- \$100,000 for Facilities Maintenance contracts related to the 495 S. Fairview Building (this represents an increase of \$50,000 above the FY 2019 Status Quo budget).
- \$15,200 and \$54,900 increase in overtime costs in Security and Certification and Operations, respectively, to more closely reflect the average from FY 2016 to FY 2018
- \$60,000 in additional electrical costs associated with the 495 S. Fairview building.
- \$35,000 in FY 2018 and \$60,000 in FY 2019 for a consultant to aid in the development of the Fixed Base Operator (FBO) selection process.
- \$47,000 in maintenance contracts for the Airport's new parking revenue control equipment
- \$27,300 in waste disposal, based upon average costs for Goleta Sanitary District from FY 2016 to FY 2018
- \$25,000 to update the Airport Layout Plan (ALP), related to the AIP program
- \$20,000 for annual licensing costs for the Airport's new Property Management/AR software system
- \$20,000 in marketing services, split equally between the Airport marketing consultant and the Santa Barbara Chamber of Commerce for its management of the Airline Terminal information desk

Narrative Analysis of Programmatic Changes

Significant changes in P3 objectives by program.

As part of the P3 update process for FY 2019, the Airport has proposed a number of changes to "Measurable Objectives" for the following programs:

- *Administration*: move objective for regional share of air service market to "Other Program Measures". Air service development at SBP and SMX is out of the Airport's control.
- *Business and Property Management*: eliminate objectives related to measuring progress against budget. Add objectives to measure rental rates in comparison to local market and Airport Commission approved ranges.
- *Marketing*: social media objective discontinued because of lack of control by staff. New objective added to gauge impressions in local media.
- *Facilities Management*: move "Project Objective" to maintain diversion rate for recyclables at the Airline Terminal to "Measurable Objectives".

- *Security*: eliminate two measures related to responses to security calls and create two new ones for response times to emergency and non-emergency calls. Eliminate measurement related to TSA-required perimeter inspections, which are mandatory.
- *Certification and Operations*: revise objective related to FAA Certification inspection to focus on correcting discrepancies found during inspection.
- *Facility Planning and Development*: add objective to measure timeliness of development review comments submitted to applicants/agencies.

The Airport also included a number of additional “Other Program Measures”, such as to track staff workload related to board and commission meetings and reviews of projects and plans, parking revenue per enplanement, gallons of jet fuel sold to general aviation users and commercial airlines, law enforcement officer (LEO) responses from outside agencies, passenger pickups by Transportation Network Companies (TNCs), and Notices to Airmen (NOTAMs) issued by staff.

Special projects and/or new initiatives contained in budget – A new Commercial Ground Transportation Program was adopted by Council in July 2017. The FY 2018 and FY 2019 Status Quo budget included \$128,000 and \$131,840 in staffing costs, respectively, to be provided by the Airport parking management contractor, and \$81,500 to purchase equipment to track usage by certain ground transportation providers. After a reevaluation of the implementation of the program, the Airport is proposing to implement the program using a Senior Airport Security Aide (see proposed staffing changes below), supplemented by 960 annual hours of hourly Security Aides. This represents a net savings of approximately \$109,000 vs. the Status Quo FY 2019 budget. The \$81,500 equipment purchase is also being postponed, pending further review of equipment needs. Fees of \$2.75 per pickup for pre-arranged operators, which includes TNCs, are estimated to generate \$165,000 in annual revenue, less 4% for the software program to administer the project. Other taxi/limo providers are estimated to provide \$15,000 in revenues. The FY 2019 budget includes approximately 9 months of revenues from TNCs, and full-year revenues from other providers.

Service Reductions or Enhancements

Long Term Parking Lot #2

The FY 2018 and FY 2019 Status Quo budget included \$270,000 and \$277,400, respectively, in anticipation of restarting the shuttle to Long Term Parking Lot #2 for certain periods from June through December. No change has been proposed for FY 2019. The shuttle will need to operate during FY 2019 during the November to January holiday period, as well as during the slurry seal and construction of the solar panel project in the Terminal Long Term Parking lot.

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 three position change requests to Human Resources as part of the FY 2019 budget cycle. The change requests included:

1. One Airport Security Aide to one Senior Airport Security Aide in the Security Division. To support Commercial Ground Transportation Program and coordinate security duties performed by Airport Security Aides and Airport Traffic Aides.
2. One new 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 on a 24/7 basis.
3. 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 on a 24/7 basis.

Funding of the proposed positions is based on the Department’s revenue line items. The estimated net impacts are listed in the table below, and have been included in the 5-year “Forecast of Revenues & Expenses”.

Proposed Position Changes- Net Budget Increase

Position Change	FY 2019 Cost
1. Airport Security Aide to Senior Airport Security Aide	\$6,396
2. One Airport Operations Specialist	\$82,569
3. One Senior Airport Operations Specialist	\$90,396
TOTAL	\$179,361

Proposed capital projects contained in budget

For FY 2018 the following projects are proposed:

- Additional appropriations to replace electrical switchgear at 495 S. Fairview Ave. Bids were received in February 2018. The bids necessitated an increase to existing appropriations for a project total of \$660,135. The increased costs are likely related to the need to construct a foundation that raises the switchgear four feet above the existing and related extensions to existing electrical conduits (FY 2018: \$260,135 total in additional appropriations, split between Operating Fund transfers of \$61,135 and reallocations between projects in the Capital Fund. The Airport will request reprogramming \$117,500 from resurfacing the Airline Terminal Long Term Parking Lot, which was planned to follow completion of the solar project by EEI, and \$81,500 while the equipment purchase is on hold pending evaluation of the Commercial Ground Transportation Program.)

- The Airport Industrial Area Specific Plan Update is scheduled for Council in March 2018. The contract cost is \$58,300 in FY 2018 and will be funded through reprogramming of FY 2018 capital funds of \$50,000 from the Goleta Slough Tidal Restoration project and the use of \$8,300 in Capital Fund reserves. The Tidal Restoration project is in its final year of monitoring, and there are enough funds remaining on the current contract to complete the project.

For 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 \$4.6 million annually in rental income. Specific priority projects for FY 2019 include exterior improvements to Building 344, replacing HVAC in the airfield electrical vault, and painting Hangar 2. (FY 2019: \$350,000)
- Rehabilitate deteriorated parking lots at the Airline Terminal, car rental QTA, or leased by Airport tenants. To slurry seal the Airline Terminal Long Term parking lot. (FY 2019: \$150,000)
- Airline Terminal maintenance. To install safety railings on Airline Terminal passenger boarding bridges. (FY 2019: \$50,000)
- Airfield Operations Area (AOA) pavement maintenance. (FY 2019: \$100,000)
- Repairs to Airport Utility Infrastructure. (FY 2019: \$50,000)
- Improvements to 495 S. Fairview Hangar such as electrical, roofing, HVAC, and other building systems as necessary. (FY 2019: \$200,000)
- Airport Industrial Area Specific Plan Update. (FY 2019: \$150,000)
- 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 2019: \$263,855)

Total FY 2019 spending for the projects listed above is \$1,050,000, excluding AIP grant match.

Supplemental Items:

of Staffing Hours for proposed Hourly Salaries:

- Security – 7431 - \$178,231
2 Airport Patrol Officers – 960 each at \$32.62/hour

2 Airport Security Aides – 1210 total hours, split 250/960, at \$17.29/hour
8 Airport Traffic Aides – 913 each at \$13.15/hour

Airport Patrol Officers to supplement back fill vacant full-time positions and when permanent staff is unavailable due to vacancies, illness, vacation, or personal leave. Also, to provide enough patrol officer coverage to allow Airport Patrol Supervisor to focus on proactive supervisory duties, instead of backfilling patrol officer coverage gaps.

One hourly Airport Security Aide working 250 hours annually to provide coverage when permanent staff is unavailable due to illness, vacation, or personal leave. The remaining 960 hours are to provide support to the Senior Airport Security Aide for enforcement of the Commercial Ground Transportation Program.

Airport Traffic Aide on duty approximately 20 hours per day (there are two 10-hour shifts per day) to staff the checkpoint exit lane. Staff has looked at several options, including the use of technology, as an alternative to staffing the exit lane. The Status Quo FY 2019 capital improvement budget included an automated terminal exit lane monitoring system that would reduce the need to staff the exit lane. However, the project was eliminated from the Proposed FY 2019 budget due to competing capital priorities and risk that the project might not eliminate the TSA requirement to staff the exit lane.

- Custodial Maintenance – 7421 - \$45,051
5 Custodians – 472 hours each at \$19.09/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 staffing level averaged over FY 2016 to FY 2018.

- Certification & Operations – 7441 - \$25,678
2 Airport Operations Specialist – 520 hours each at \$24.69/hour

Hourly Operations Specialist positions to back fill vacant full-time Operations Specialist positions and when permanent staff is unavailable due to vacancies, illness, vacation, or personal leave.

PREPARED BY: Administration Division

ATTACHMENT: Forecast of Revenue and Expenses