



City of Santa Barbara
 Airport Department

DATE: March 14, 2019
TO: Airport Commission Budget Subcommittee
FROM: Henry Thompson, Airport Director
SUBJECT: Proposed Operating Budget for Fiscal Years 2020 and 2021

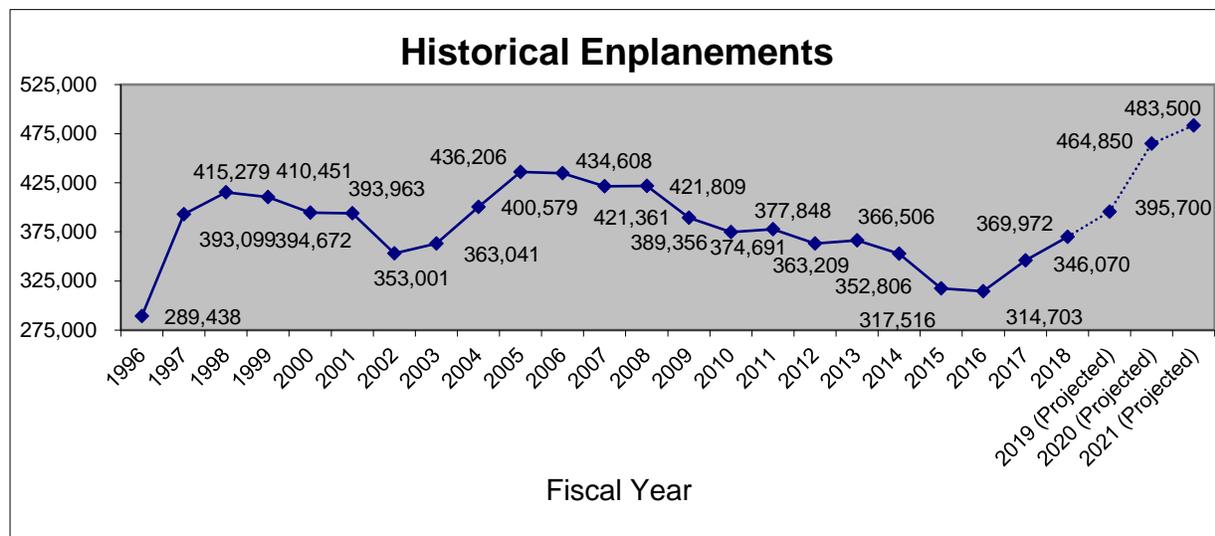
RECOMMENDATION:

That the Budget Subcommittee recommend approval of the proposed Fiscal Year 2020 and Fiscal Year 2021 Airport Operating Budget to the Airport Commission.

DISCUSSION:

Significant Issues Affecting Development of the Budget

In August 2018 Frontier Airlines began 3x weekly service to Denver and Sun Country Airlines began 2x weekly seasonal service to Minneapolis-Saint Paul. Sun Country has increased its schedule beginning in May 2019 to 4x weekly. In October 2018 Contour Airlines began new daily service to Oakland and less than daily service to Las Vegas. In April 2019 Contour Airlines will begin daily service to Sacramento and will increase Oakland and Las Vegas flights to 2x daily in May 2019. Finally, Delta will begin 3x daily service to Salt Lake City in August 2019. The net effect of these changes is an estimated 7% increase in passengers for FY 2019 vs. FY 2018, 17.5% increase in passengers for FY 2020 vs. FY 2019, and a further 4% increase for FY 2021 vs. FY 2020. The total number of enplanements in FY 2020 and FY 2021 would be the highest ever at SBA.



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

FY 2019 - 2020 Projected Passengers

	United	Alaska	American	Frontier	Sun Country	Contour	Delta	Totals
FY2019 1st Half Actual	183,264	58,899	100,737	11,908	5,649	3,162	-	363,619
FY2019 2nd Half Projected	199,365	64,920	117,537	20,914	4,267	20,773	-	427,777
FY2019 YE Projected	382,629	123,819	218,274	32,822	9,916	23,935	-	791,396
FY2020 Increased Capacity	-	-	-	9,006	9,998	18,260	101,040	138,304
FY2020 Projected	382,629	123,819	218,274	41,828	19,915	42,195	101,040	929,700
FY2021 Projected	397,935	128,790	227,005	43,500	20,800	43,890	105,080	967,000

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 2020 – FY 2021 budget: passenger traffic at the levels described in the table above with a 17.5% increase in FY 2020 and a 4% increase in FY 2021; airline terminal concession revenues based upon mid-year FY 2019 actual revenues and passenger increases; general aviation activity to remain stable compared to FY 2019 projections; commercial/industrial revenue to remain stable; non-commercial aviation lease revenue to increase substantially in FY2020 as the revenue from the hangars at 495 S. Fairview is annualized.

Additionally, the Airport proposes to increase airline rates and charges by 3% for building rental and decrease 2% for landing fees in FY 2020. The decreased 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 13.3% for FY 2019. No changes are proposed to fuel flowage fees or parking rates.

Airport staff held a required Rates and Charges meeting with all SBA airlines to discuss budget objectives and the ultimate impact of those objectives on their rates at SBA. The airlines unanimously approved the FY 2020 projected Rates and Charges which included modest rate impacts over FY 2019 based upon projected passenger growth, refinanced bonds, and increased Airport revenues.

Summary of Proposed Fee Changes

Description	FY19 Actual	FY20 Proposed	% Change
Terminal Building Rental (sqft/year)	\$107	\$110	3%
Landing Fees (per 1000 lbs.)	\$4.07	\$3.99	-2%
Boarding Bridge Fixed Cost Center (per turn)	\$45	\$39	-13.3%
Remain Overnight (RON) Fee (per night)	\$45	\$39	-13.3%

Finally, the increases in passenger levels provides the Airport with a solid financial foundation in the coming years (see 5-year “Forecast of Revenues & Expenses”). The Airport has a few main goals for the Operating Fund:

- Build reserves above policy in order to have the flexibility to respond quickly to changing needs, such as changes in the economy or continued passenger growth.
- Address deferred capital needs. Airport infrastructure is aging and needs replacement, modernization, and/or repair. Addressing these needs may also provide opportunities to increase Airport tenant revenues.
- Pay down debt, especially the General Fund loan for light industrial development at 6100 Hollister Avenue, to generate increased future cash flows.

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 2019 projections and explanation of material budget variances:

- Commercial and industrial revenue target is expected to be 1.2% above budget, with limited vacant properties and utility reimbursements higher than budgeted.
- Non-Commercial Aviation (general aviation or GA) revenues are down 1% due to decreased general aviation landing fees and fuel flowage fees with reductions in service from SurfAir. The decreases were offset by increased lease revenues from facilities at 495 South Fairview Avenue.
- Terminal revenues are projected to be 4% above budget. Parking, rental car, gift shop, and restaurant revenues are up due to increased passenger levels. The FY 2019 budget forecasted Ground Transportation Program revenues beginning in Fall 2018, however, the program implementation has been delayed and revenues are expected to begin in June 2019 resulting in a 78% decline vs. budget.
- Overall Commercial Aviation revenues will be significantly above target by 9% due to airline negotiated rates and charges and new air carrier activity. Landing fees from the airlines will exceed target by 10% due to aircraft upgauging and new airline service. Building rental from the airlines are 9% above budget as Frontier,

Contour, and Sun Country have rented space at the Terminal beyond that included in the FY 2019 budget. Aircraft RONs are projected based upon actual usage at mid-year. Boarding Bridge “turns” are projected to be about 10% below budgeted levels, with a commensurate impact on revenues. Finally, terminal employee parking revenues are projected based upon mid-year usage.

- Other revenue is projected above budget by 23%. Interest income is projected 21% below budget. During the development of the FY 2019 budget, TSA had not indicated the Law Enforcement Officer (LEO) program would continue beyond March 2018 and the budget was zeroed out; the program has been continued albeit at a reduced level of \$91,250 from prior years.
- Overall, FY 2019 revenues are projected to be 3.8%, or \$780,000, above target at \$21.2 million.

Revenue assumptions for FY 2020 and FY 2021

- Commercial and industrial revenues are projected based upon possible building revenue, increased by a 3% CPI adjustment each year and a 2% vacancy rate. One significant lease (~\$350K annually) that expires early in FY 2020 was assumed to continue at the FY 2019 lease rate with a subsequent 2% increase for FY 2021. A vacancy at Building 114 is projected to be filled starting on July 1, 2019, generating \$165,000 for FY 2020. The development of the automobile dealership at 6210 Hollister Avenue will not occur and the license agreement for the development will expire in September 2019. The Airport is exploring other options for development at 6210 Hollister Avenue.
- Non-Commercial Aviation overall revenue is projected to increase by 11% for FY 2020 and 3% for FY 2021. Lease income from the hangars at 495 S. Fairview is approximately \$2.25 million annually, and FY 2020 will be the first full year of income for the facility. Building rental was calculated at possible building revenue with a 3% CPI adjustment each year and 2% vacancy rate).

GA activity is projected to increase 3% each year, with related impacts on fuel flowage fees and projected landing weights. Landing fee rates are set at the same rate as the commercial airlines, with a 2% decrease in landing fee rate in FY 2020 and a 3% increase in FY 2021. The Airport is implementing an automated landing fee collection system for GA in Spring 2019, so there may be an opportunity for increased landing fee revenues that capture all of the landings at the Airport. Currently, GA landing fees are reported by the FBOs.

- Terminal revenues are dependent upon enplaned passenger levels. With passenger levels projected to increase 17.5% in FY 2020 and 4% in FY 2021, terminal revenues for concessions are projected to increase in a proportional manner relative to FY 2019 projected actuals. Rental car revenues are projected to increase by approximately half of the passenger rate in FY 2020, or 8.5%. Finally, the Airport’s advertising firm is projected to increase the advertising revenue to the Airport in FY 2020 and FY 2021 based upon FY 2019 projections.
- Commercial Aviation revenues for airline building space are projected at the amount of space leased by the airlines (including Delta Airlines) and an increase

to the rental rate of 3% each year. Landing fees are based upon projected airline landed weights, increasing 17.7% in FY 2020 and 7% in FY 2021, and a decrease of 2% in landing fee rate in FY 2020 and an increase of 3% in FY 2021. The Airport's airline incentive program includes the waiver of landing fees for up to one year for new air service. Landing fee waivers are included for Contour for one daily flight for Oakland and Las Vegas through October 2019 and through May 2020 for Sacramento. A waiver for one daily flight for Delta to Salt Lake City through August 2020 is also included.

Based upon actual usage of the boarding bridge and aircraft remaining overnight (RON), the fee for both is proposed to decrease from \$45 to \$39 in FY 2020. Boarding bridge revenues are based upon a fixed cost center that includes the portion of bond debt payments attributable to the boarding bridges. With the issuance of the 2019 bonds, the revenue generated by the bridges will decrease to \$216,500. The estimated number of RONs is expected to increase, leading to a 20% increase in revenues for FY 2020 vs. FY 2019. Fuel flowage fees are projected to increase in line with aircraft landing weights for FY 2020 and FY 2021. Airport staff met with airline representatives on February 22, 2019, who provided input on the airline rates and charges.

Changes in fees with related revenue impacts:

No fee changes are proposed.

New revenue line items

The Airport has included a Common Area Maintenance (CAM) account for landscaping, janitorial, and other expenses associated with the light industrial development at 6100 Hollister Avenue and the hangar facilities at 495 S. Fairview Avenue. FY 2020 revenue is budgeted at \$24,800, based upon a monthly cost of \$.05/sqft for 6100 Hollister Avenue and \$1,027 month for 495 S. Fairview Avenue.

Narrative Analysis of Expenditures

Expenditure assumptions for FY 2019 projections:

- Salaries and Benefits have been projected to reflect several vacancies in Administration, Business & Property Management, Airport Patrol, and Certification and Operations. A new Airport Director began February 1st, a new Accounting Assistant began on January 28th, a new Administrative Assistant is projected to begin on June 1st, a new Airport Patrol Supervisor is projected to begin in early May, two new Patrol Officer I's are projected to begin in early June, and two Operations Specialists positions are projected to remain open until the beginning of next fiscal year. Total salary savings are projected at nearly \$600,000, or 8% of budget.
- Total Materials & Supplies will be under budget by 2.6%, or approximately \$206,000. The FY 2019 budget assumed a period of rent abatement for the 495

S. Fairview Avenue facilities while the electrical switchgear was replaced. Instead, the Airport rented generators to power the facilities for approximately \$40,000 per month for six months. This increased cost has been partially offset by the new parking management contractor, Republic Parking. Republic is expected to save approximately \$145,000 vs. budget by reducing costs, especially related to insurance. The Special Projects budget included shuttle bus operations to Long Term Parking Lot 2 for peak passenger periods from summer through the New Year. Terminal employees were shuttled to a parking lot at 495 South Fairview Avenue from Thanksgiving to the New Year and are planned to be shuttled during repairs to the Terminal Long Term Parking Lot. The planned solar project will not be installed during the remainder of the FY 2019, which results in shuttle savings of \$98,000.

- Capital transfers includes a request from the Airport to transfer of \$1.1 million to the Airport Capital Fund in order to purchase a new boarding bridge (this request has not been included in MUNIS budget entry, but is reflected in the 5-year "Forecast of Revenues & Expenses"). With the addition of new air service, including Delta, gate capacity at the Terminal is constrained and the new boarding bridge would reduce gate capacity constraints in the short-term. The boarding bridge was included in the Airport's AIP grant application for the current federal fiscal year using \$800,000 in AIP entitlement funding. Staff would request to appropriate the funds at Council after receiving bids for the project in FY 2019, thereby expediting the delivery of the bridge which has significant lead times (AIP grants are typically issued in July or August). Upon receipt of the AIP grant, the Airport would seek to move all encumbrances/expenditures into the FAA Grants Fund. The 5-year "Forecast of Revenues & Expenses" includes a transfer out for capital of \$1.1 million and an other revenue transfer of \$800,000. The Airport will seek discretionary AIP grant funds to cover the \$1.1 million estimated cost of the bridge. The impact of the request would be year-end reserves of approximately \$609,000 below policy for FY 2019. This would still leave Capital Reserves of approximately \$485,000.
- Transfers out are projected at budget. The Airport Operating Fund transferred \$800,000 to the Development Fund in July 2018 to help fund development of light industrial buildings at 6100 Hollister Avenue.
- In April 2019, the Airport/City will finalize the 2019 Airport Bond issue, which is a refunding of the 2009 Airport Bond. Debt service savings for the Operating Fund will equal \$436,000 in FY 2019.
- Total Expense including capital transfers for FY 2019 is projected at \$21.2 million when including the boarding bridge transfer request.

Expenditures assumptions for FY 2020 & FY 2021

Projected expenditures for FY 2020 & FY 2021 have been adjusted for salaries and benefits, allocated costs, debt service payments, and ARFF and engineering services.

The supplies and services budget has been adjusted downward for the parking management contract based on FY 2019 mid-year actuals.

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

- \$323,000, or 31% over prior years, for Facilities Maintenance contracts on a department-wide basis, which include \$40,000 of the cost for maintenance contracts for SUPPS at the Terminal, new maintenance contracts for 6100 Hollister Avenue and 495 S. Fairview Avenue, price increases in service contracts, additional features for the noise monitoring system (\$23,000 increase), and the ability to perform more preventive maintenance on Airport facilities (\$24,000 increase for maintenance of access control system).
- \$100,000 only in FY 2020 for air service marketing for Salt Lake City and Sacramento (portions for Las Vegas will be spent in FY 2019). The Airport air service incentive program includes up to \$100,000 in marketing for each new service.
- \$50,000 only in FY 2020 to hire a consultant to aid the Airport in evaluating its airline leases, which expire at the end of FY 2020, and rates and charges structure
- \$40,000 only in FY2020 to hire a signage consultant to improve the market appeal of Airport properties
- \$35,000 for legal services for tenant and development-related issues
- \$25,000 for the Airport's air service development contract
- \$22,500 in meeting and travel across the department, split roughly in half to increase professional development opportunities for staff and for the Airport Director to attend California Airport Council meetings.
- \$20,000 in FY 2020 for lease commissions in case a retail broker is needed to help lease the retail space at 6100 Hollister Avenue
- \$11,750 for increased custodial supplies for the Terminal, reflecting passenger increases
- \$7,200 for Certification and Operations training to reflect the average of the past three fiscal years. An additional \$20,000 one-time increase for FY 2021 to have an on-site American Association of Airport Executives (AAAE) trainer for law enforcement officer (LEO) training for all Airport Patrol Officers.
- \$4,370 for safety shoes for Facilities Maintenance staff

Special Projects has an additional \$62,000 budgeted for FY 2020 and corresponding amount for FY 2021 based on Republic's cost estimate for operating a shuttle to Long Term Parking Lot #2 for six months of each fiscal year. The shuttle will need to operate during the November to January holiday period, during construction of the solar panel project in the Terminal Long Term parking lot, and possibly during other peak passenger periods that fill the Terminal parking lots.

The equipment budget for FY 2020 has been increased to replace desktop computers on a department-wide basis. The computers were last replaced 5 years ago. It was also increased by \$5,000 to purchase new furniture for the Airport Director or for the positions requested below. Five new tablets are also included for use in Patrol vehicles.

Narrative Analysis of Programmatic Changes

Significant changes in P3 objectives by program. The Security Program consolidates two “Measurable Objectives” related to response time for unauthorized persons into one measure. It also consolidates two “Measurable Objectives” related to Terminal and Security Identification Display Areas into one measure.

Special projects and/or new initiatives contained in budget –

Terminal Capacity Enhancements: Four new airlines, Frontier, Sun Country, Contour, and Delta, and the passengers associated with them have led to constraints at the Terminal, particularly for the apron, gates, and airline office space. To address these issues, the Airport is engaging in a series of projects, including:

- Installation of passenger boarding bridge at Gate 3 to alleviate gate capacity issues. The Airline Terminal currently has three boarding bridge gates and one ground boarding gate that can support up to 4 aircraft.
- Shared Use Passenger Processing System (SUPPS) to alleviate gate capacity constraints at the Terminal. Currently, the airlines are limited to using the gates where they have proprietary equipment installed. SUPPS allows any airline to use any gate to board aircraft.
- Airline Terminal Apron Redesign to alleviate gate usage constraints. This improvement will allow narrowbody aircraft to use the boarding bridge at Gate 1. Currently, Gate 1 can only accommodate regional jets. When combined with the boarding bridge installation at Gate 3, Terminal boarding bridge gates would be able available for four narrowbody aircraft simultaneously. Airlines at SBA continue to upgauge from regional jets to narrowbody aircraft.
- Design and permitting of modular office space at the Terminal. With the addition of Delta, there is little office space at the Terminal for any new carrier. Completed design and permitting for the installation of modular office space would allow for timely installation should an additional airline begin serving SBA.

2019 Airport Bonds: In April 2019, the City will issue 2019 Airport bonds to refund the 2009 Airport bonds. In FY 2019, debt service savings will be \$436,000 for the Operating Fund for the 2019 Airport bonds vs. the 2009 Airport bonds. From FY 2020 and onwards over the course of the remaining 20 years of bond payments, annual savings are approximately \$230,000 compared to the 2009 Airport bonds. Overall, combined Airport bond payments from the Operating Fund and PFC Fund will be reduced from approximately \$3.1 million to \$2.5 million.

Significant reallocation of resources between programs – No significant reallocation of resources between programs for FY 2020 or FY 2021.

Other Discussion Items:

All proposed staffing changes and how funded – the Airport submitted three position change requests as part of the FY 2020 – FY 2021 budget cycle. The change requests included:

1. One new Properties Management Specialist in the Business and Property Management Division. To focus on tenant issues and permitting and leasing processes, which would allow higher level staff to focus on business development and generating new income.
2. One new Airport Operations Supervisor in the Certification & Operations Division. To manage the Airport Security Program and function as TSA liaison. This position will support the Airport’s full compliance with federal aviation security regulations.
3. Reclassify one Administrative Analyst II to a more senior level, based on current responsibilities. Human Resources has not completed its study of the position as of this time. The chart below and the 5-year “Forecast of Revenues & Expenses” assume a net increase in salary and benefits of \$31,027 for the position.

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 2020 Cost	FY 2021 Cost
1. One new Properties Management Specialist	\$110,960	\$118,621
2. One Airport Operations Supervisor	\$134,497	\$141,222
3. Reclassify Administrative Analyst II	\$31,027	\$31,958
<i>TOTAL</i>	<i>\$276,484</i>	<i>\$291,801</i>

Proposed capital projects contained in budget

For FY 2019 the following projects are proposed:

- Shared Use Passenger Processing System (SUPPS) to support reducing gate capacity constraints at the Terminal for improved gate scheduling and utilization. Currently, the airlines are limited to using the gates where they have proprietary equipment installed. SUPPS allows any airline to use any gate to board aircraft. Ongoing maintenance contract of \$40,000 is included in FY 2020 and FY 2021. Staff proposes to return to Council to reallocate funding from other capital projects, including unused change order authority from the NE Apron Rehabilitation Project Phases I and II and the cancelled Airport Industrial Area Specific Plan Update, in order to fund the purchase of SUPPS. (FY 2019: \$300,000)
- Install passenger boarding bridge at Gate 3 (see Capital Transfers discussion on pg. 6 for details.)
- Reallocate \$45,000 in FY 2019 capital funds from the cancelled Airport Industrial Area Specific Plan Update to Airline Terminal Maintenance to design and permit modular office space.

For FY 2020 and FY 2021 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 2020 include reroofing and HVAC replacement at Building 226 and replace windows in hangar doors at Hangar 1 and Hangar 2. (FY 2020: \$400,000, FY 2021: \$250,000)
- 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 2020: \$150,000, FY 2021: \$200,000)
- Airline Terminal maintenance to construct federally-required animal relief area and repair leaks at stairways. (FY 2020: \$100,000, FY 2021: \$50,000)
- Airfield Operations Area (AOA) pavement maintenance. (FY 2018: \$75,000, FY 2019: \$150,000)
- Repairs to Airport Utility Infrastructure. (FY 2020: \$25,000, FY 2021: \$50,000)
- Improvements to 495 Fairview Hangar such as electrical, roofing, HVAC, and other building systems as necessary. (FY 2021: \$475,000)
- Replace two 30-year old backup generators. (FY 2020: \$30,000, FY 2021: \$30,000)
- Provide for change order authority for the AIP-funded Airport Security System Upgrade. (FY 2020: \$160,000)
- Provide for change order authority for the AIP-funded Taxiway H Extension environmental analysis (FY 2020: 50,000)
- Provide design in FY 2020 and change order authority in FY 2021 for Phase III of the Northeast Apron Pavement Replacement project, which is an AIP-funded project. (FY 2020: \$200,000, FY2021: \$250,000)
- Develop and assess plans to mothball Western Aero Hangars, which was required as part of the Master Plan adoption. (FY 2020: \$75,000)
- Design and construct Airline Lavatory Pretreatment Facility to meet Goleta Sanitary District requirements. The Airport will negotiate with the airlines on sharing the costs of construction for the facility, likely through a reimbursement agreement. (FY 2020: \$95,000, FY 2021: \$550,000)
- 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 2020: \$270,860, FY 2021: \$261,974)

Fee Resolution:

Council adopted a Commercial Ground Transportation Fee Schedule at its meeting on October 30, 20108. The City Attorney's Office advised the Airport to include the fees in the master fee schedule. The FY 2020 master fee schedule has been updated to

incorporate the fees adopted by Council in October with no changes proposed at this time.

Supplemental Items:

of Staffing Hours for proposed Hourly Salaries:

- Security – 7431 - \$180,013
 - 1 Airport Patrol Officers – 930 hours at \$32.95/hour
 - 2 Airport Security Aides – 1210 total hours, split 250/960, at \$17.54/hour
 - 8 Airport Security Aides – 913 each at \$17.54/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.

The Airport is also transitioning from using Airport Traffic Aides to staff the checkpoint exit lane to using Airport Security Aides in order to allow more flexibility in staffing. Airport Traffic Aides staff the checkpoint exit lane approximately 20 hours per day (there are two 10-hour shifts per day).

- Custodial Maintenance – 7421 - \$45,502
 - 5 Custodians – 470 hours each at \$19.39/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 2019.

- Certification & Operations – 7441 - \$25,935
 - 2 Airport Operations Specialist – 520 hours each at \$24.94/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: Airport Administration Division

ATTACHMENT: Forecast of Revenue and Expenses