Meeting 9/23/2020
Agenda Item No. 9

City of Santa Barbara
Airport Department

DATE: September 23, 2020

TO: Airport Commission

FROM: Henry Thompson, Airport Director

SUBJECT: Airport FY20/21 Budget Process Recap and Status Update

RECOMMENDATION:

That Commission receive a presentation on FY20/21 Airport Budget Process Recap and Status Update

BACKGROUND:

At the August, 2020 Airport Commission meeting, Commission Chair Hopkins and Vice Chair Bowen introduced a motion for staff to provide a budget presentation to the Commission at the next scheduled meeting in September 2020.

While the FY20/21 budget process is complete and staff is now engaged in the day-to-day management of Airport finances, the Airport Director agreed to provide a recap of the development of the FY2020/21 budget. The presentation also will include information about the swift and proactive adjustments made to address evolving changes in the commercial aviation business prior to the final adoption of the budget by the Santa Barbara City Council in May 2020.

In mid-March 2020, Santa Barbara Airport began to experience the impacts of the onset of the COVID-19 virus, just as staff were finalizing the elements of the FY2020/21 budget. International travel restrictions had been issued by the President, and California Governor Newsom had issued directives curtailing certain businesses in order to contain the spread of the virus. Conditions worsened for SBA and the industry as a whole with the greatest impact to demand for commercial air service by mid-April, when the industry was at a near stand-still. The nation had lost 96% of commercial passenger traffic as compared to the year prior.

Prior to the onset of the pandemic, staff already had met with, and secured the support of the Airport's commercial airlines for the proposed budget. Staff also by then had received the support of the Airport Commission's Budget Review Subcommittee. Forecasts at that time were optimistic given a trend of robust growth in airlines, routes, and passenger enplanements. Airport passenger traffic grew more than 40% in the months of January and February 2020 over 2019 levels. The future looked bright.

The precipitous fall in demand for air service required Airport management to pivot quickly to address a rapidly evolving scenario. The drop had immediate impacts to not only the future FY2020/21 budget planning, but also for the remaining quarter of FY2019/20. Such a dramatic drop in passenger traffic resulted directly in lost landing fee and boarding bridge revenues as well as fuel sales. Just as critically, however, the drop created a ripple effect of lost revenues in parking revenues, rental car fees and terminal concession revenues.

Pandemic Budget Management

The impact of this pandemic and the uncertainty surrounding recovery led City Administration to direct department staff to remain on course with the budget process, however, with an expectation of providing City Council with updated assumptions at the time of presentation for approval. This strategy was the best solution given the inability to make meaningful projections about the impacts to the existing budget, let alone, project further down the road for the FY2020/21 budget.

In May 2020, recognizing the importance of the airport and airline industry to the national economy, Congress passed the CARES Act to provide immediate funding to airports suffering from sudden revenue losses. The administrator for the grant, the Federal Aviation Administration (FAA), awarded SBA $9.5 million in funding to support its revenue shortfall. In accordance with grant conditions, these revenues were earmarked specifically to support debt service, operating expenses and extra expenses incurred due to the virus, such as costs for installation of counter protection at check-in counters and gates.

Armed with this unprecedented grant funding, and a growing appreciation of the long-term impacts of the pandemic, staff devised a plan to allocate $4.5 million, or nearly half of the grant, to shore up nearly $2.7 million in projected revenue losses in the fourth quarter of fiscal year 2019/20. Along with the strong financial performance for the majority of the year, the grant funds allowed the Airport to meet its projected financial needs, as well as make the early repayment of the general fund loan from the City for the 6100 Hollister development. By repaying the loan to the City, the Airport is now able to retain revenues from the development rather than pay debt service and interest.

In tandem with addressing fourth quarter revenue shortfalls, staff revisited revenue and cost projections for fiscal year 2020/21. Conservative assumptions were made about the recovery of commercial air service and the level of potential delinquency among other commercial real estate tenants.

As scheduled in mid-May, Airport staff presented its status quo budget to City Council that also included the most up-to-date impacts and revenue projections available. Council recognized the need for the Airport to proactively manage the budget in real-time as conditions evolved over the course of the budget year. This heightened review led to a budget reduction plan that identified $2.6 million in operating and capital cost reductions. In addition, the remaining $5 million in CARES Act funding will be allocated to supplement revenues in the new fiscal year. These efforts have paved the way for the Airport to meet its near-term needs and provide time necessary for a passenger demand recovery.

Amidst ongoing uncertainty and lagging passenger recovery, staff have remained vigilant in monitoring revenue streams and operational costs. Staff continues to adjust revenue projections as needed and works to align expenses with regulatory and operational requirements. The pace and targeting of capital improvement projects also remains in sharp focus as the year progresses.

Budget Performance

Despite the most challenging financial and operating environment since the 9/11 crisis, FY2019/20 ended very positively. Highlights include:

- The Airport's FY20 $25M Operating Budget was managed with the fiscal controls necessary to avoid an overall loss for the year.
- Staff identified more than $800,000 in emergency budget reductions, in combination with an additional $626,000 in salary savings, for a net reduction of $1.38 million for FY2019/20.
- Unprecedented growth for three quarters in FY2019/20 helped compensate for the significant drop in passengers in the fourth quarter due to COVID-19.
- The pandemic impacted all revenue categories dependent on commercial passengers, but commercial real estate revenues were stable.
- CARES Act funding offset losses in commercial air service and helped position the Airport for a potentially long recovery.
- Eliminating the 6100 Hollister Loan to the City provides the long-term benefit of reclaiming revenues toward operations rather than debt service and interest.

The current fiscal year continues to be challenging, however, there is cause for optimism due to signs of slow, but steady growth.

- Airlines continue to add back capacity at SBA and load factors showing strength despite airline policies that curtail the number of available seats on flights.
- Alaska Airlines announced new service to San Diego beginning in November 2020. Planned service to San Jose may materialize when business travel improves.
- United Airlines has deferred, but not eliminated, plans to launch red-eye service to Chicago, once demand improves.
- Contour Airlines also plans to return to SBA when demand improves, presumably in 2021.
- Staff have reduced operating costs by $875,000 and planned capital expenditures by $1.8 million for a total savings of $2.6 million. These adjustments to budget demonstrate real-time flexibility to changing conditions.

- The CARES Act funding of $5 million are being allocated to offset reduced revenues in FY2020/21.
- The U.S. Senate's inclusion of an additional $10 billion in airport support, subject to negotiation in Congress, indicates the possibility of a new round of airport grant funding.
- The FAA committed an additional $830,000 in discretionary funding in order to complete the entire Northeast Hangar ramp rehabilitation project in the current fiscal year.

Summary

- Staff has proactively and flexibly managed the Airport's budget effectively to respond to the unprecedented challenge of COVID-19.
- Real-time budget management is ongoing to ensure a solid recovery and a fiscally responsible position.
- The air service market in Santa Barbara is fundamentally strong and will recover – the only uncertainty is how quickly this recovery will take place.
- A means to control the virus, confidence in the safety of air travel, and the recovery of the local and national economy are key to recovery.
- As a business enterprise, the Airport must weigh and prioritize a number of complex issues beyond balancing revenues and expenses.
- A balanced budget on an annual basis is not sufficient to secure the long-term viability of the Airport; revenues must be generated to re-invest in Airport facilities and commercial properties for the long-term.
- The airport industry has suffered serious setbacks historically and always has rebounded to an even greater position of strength; staff remain optimistic.

PREPARED BY: Administration/Business Development/Properties