



CITY COUNCIL STAFF REPORT

DATE: May 17, 2017 NEW BUSINESS

SUBJECT: PRELIMINARY OVERVIEW OF THE DEPARTMENT OF AVIATION
FISCAL YEAR 2017-2018 BUDGET

FROM: David H. Ready, City Manager

BY: Airport

SUMMARY

Staff is presenting to City Council a preliminary Fiscal Year 2017-2018 Airport Budget. Included are estimates for revenues and expenditures which include a recommendation for four new Police Officers to increase security, and increases to various revenue sources required to balance the budget.

RECOMMENDATION:

1. Discussion of the Draft 2017-18 Airport Budget; direct the City Council Finance/ Budget Subcommittee, and City Staff as appropriate.

STAFF ANALYSIS:

The Airport projects an operating surplus of \$372,060 at the end of the current fiscal year ending June 30, 2017, and a reserve cash balance of \$3,843,430.

The FY 2017-2018 proposed budget projects revenues of approximately \$21,309,100 and expenditures of \$21,287,000, resulting in an operating surplus of \$21,100. The projected reserve cash balance is expected to be \$3,495,812 (**see Attachment A**).

The Airport Commission and Commission Finance Sub-Committee have been reviewing the proposed Budget over that past month and will formally vote on the final budget at the Airport Commission Meeting on May 17th – staff will report the outcome of their vote during the City Council Meeting.

FY 2017 – 2018 Overview

The information in this report represents the best estimates by Staff of both the Airport and Department of Finance and Treasury for revenues and expenditures based upon a

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'carry-over' budget, including personnel-related cost adjustments (e.g., CalPERS retirement, health care, etc.), four new Police Officer positions, and nominal increases in supplies, utilities, and materials and supplies. The budget also includes increases in revenues from lease rates for car rental space, daily rates for public parking, and adjusting the airline lease rates. The resulting budget is essentially balanced, with a small surplus of \$21,882 in the Airport's Fund 415.

Fund 415 – General Airport Enterprise Fund

Expenditures

The largest increase to expenditures is related to personnel costs (\$330,000) and the addition of four new Police Officer positions (\$740,000), these include increases to employee compensation and benefits as a result of the negotiated salary agreements approved in FY 2014-15. Additionally, employee pension costs paid to CalPERS will increase next fiscal year (as discussed in the Staff Report of April 19, 2017, regarding the City's Preliminary FY 2017-18 Budget). Other contractually-driven cost increases which are included in the budget relate to health care costs, retiree health care costs, and workers' compensation.

The Chief of Police recommends adding the additional officer positions to increase security at the Airport - increasing law enforcement coverage at the Airport to a minimum of two officers on each shift, 24 hours per day, and seven days a week.

Also, beginning in FY 2018-19, CalPERS retirement costs will begin increasing more significantly as new investment earnings assumptions, known as 'the discount rate' (or PERS anticipated 20-year average rate of return on investments), are being implemented system wide resulting in several years of much higher required employer contributions. The following illustrates CalPERS projections for the Airport, which indicate annual required contributions will almost, double over a seven-year period:

	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>
Total PERS Costs							
BEFORE Change							
Discount Rate @ 7.5%	\$2.1	\$2.3	\$2.6	\$2.9	\$3.1	\$3.3	\$3.5
Total PERS Costs							
AFTER Change	\$2.1	\$2.3	\$2.6	\$3.0	\$3.5	\$3.8	\$4.1
New Discount Rate			7.375%	7.25%	7.0%	7.0%	7.0%

Revenues

In order to produce a balanced budget, rate increases to several revenue sources are proposed to cover the additional expenses, as shown in the following table:

Revenue Source	Proposes Increase	Amount
Rental Car Lease Space	Increase of 35%	\$345,000
Daily Automobile Public Parking Rate	Increase from \$14/day to \$17/day	\$425,000
Airline Lease Rate	Increase 10%	\$300,000

In calendar year 2016, eight car rental companies collectively paid the Airport \$5,823,324, based primarily from 10% of the gross revenue generated from rental transactions. In addition, they collectively paid the Airport \$845,500 for space they leased. The proposed 35% increase will apply only to the space the car rental company's lease. The increase will be effective July 2017.

The current daily rate for public parking at the Airport is \$14/day, which went into effect September 1, 2016. The proposed increase of \$3, to a new daily rate of \$17, will become effective on July 1, 2017. The new proposed rate is comparable to rates at other Southern California airports, including Ontario International Airport (ONT), which increased some of its parking rates effective May 2017. ONT will charge \$24/day in two small parking lots immediately in front of both of its terminals, and \$18/day in the two larger lots also immediately in front of the terminals.

The 10% increase to the airline lease rate was necessary to cover the remaining balance following the increase to the car rentals lease spaces and parking rates. These new rates are anticipated to go into effect January 1, 2018, consistent with the provisions in the current Airline Use and Lease Agreements.

Non-Operating Items

The proposed budget identifies three inter-fund transfers totaling \$1,869,500. These transfers are required to cover a financial obligation to the City's General Fund, pay for capital projects, and to pay the Airport's matching portion for FAA grant-funded projects.

Capital Projects

There are three capital projects programmed for FY 2017-18 and an emergency reserve for a total of \$710,000: maintenance and/or replacement of passenger boarding bridges, installed in 1999; needed replacement of the Automatic Vehicle Identification system (AVI), which tracks all permitted commercial ground transportation vehicles (e.g., taxis, limousines) and is the primary tool used by airport staff to charge and collect revenue; and replacement of carpet in and around the baggage claim area. The \$200,000 identified as 'Emergency Capital Programs' provides capital funds for unforeseen projects and repairs that occur throughout the fiscal year.

Fund 405 – Customer Facility Charge (CFC) – Rental Car

The Airport projects \$2,100,000 in revenues and \$6,500,000 in expenditures. Expenditures will be used to initiate the planning and design for a new car rental facility, and will likely include costs associated with enabling projects required prior to actual demolition and construction of the new facility. The fund balance is projected to be \$11.4 million at the end of FY 2017-18.

Fund 410 PFC – Passenger Facility Charge

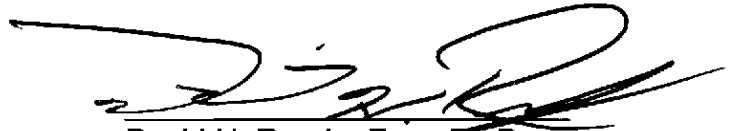
The Airport projects \$3,940,000 in revenues and \$3,640,000 in expenditures. Expenditures will be used to service the current bond debt. Additionally, there will be a \$1,500,000 transfer to Fund 415 to reimburse the General Airport Enterprise Fund for previous FAA grant funded projects.

Fund 416 – Airport Capital Projects

The Airport anticipates receiving \$8,720,000 in AIP Grant funds and two transfers from Fund 415 (as identified above) in the amount of \$1,582,000. The Airport also plans to spend \$710,000 for capital improves as described above.



Thomas Nolan
Executive Director, Airport



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City Manager

ATTACHMENT A



Airport Summary of Operations

Category	FY 2016-17 Budget	FY 2016-17 Projected	FY 2017-18 Proposed Budget
Beginning Reserve Fund Balance	\$ 4,474,227	\$ 4,607,870	\$ 3,843,430
Fund 415 General Airport Enterprise Funds			
Revenues	\$ 20,420,220	\$ 20,012,950	\$ 21,309,134
Expenditures	\$ (20,082,281)	\$ (19,640,890)	\$ (21,287,252)
Operating Surplus / (Deficit)	\$ 337,939	\$ 372,060	\$ 21,882
Non-Operating Items:			
Interfund transfer to General Fund	\$ (287,500)	\$ (287,500)	\$ (287,500)
Interfund transfer to Cap Prj Fund 416-Match	\$ (421,795)	\$ (264,000)	\$ (872,000)
Interfund transfer to Cap Prj Fund 416-CP	\$ (1,395,000)	\$ (755,000)	\$ (710,000)
Reduce Airline Incentive Funds		\$ 170,000	
Reimbursement local AIP Grant matching funds \$4.5 Million over 3 years AIP-New PFC Project Funds - (1st of three years)			\$ 1,500,000
Projected Reserve Fund Balance	\$ 2,707,871	\$ 3,843,430	\$ 3,495,812

- * The Proposed Budget includes:
- > The cost of 4 Police Officers \$740,000
 - > Other payroll and benefit increases \$330,000
 - > Revenues from rental car lease space increase of 35% \$ 345,000
 - > Increasing the daily public parking rate from \$14 to \$17 \$ 425,000
 - > Increasing airline leased rates \$ 300,000



Airport Summary of Operations

Category	FY 2016-17 Budget	FY 2016-17 Projected	FY 2017-18 Preliminary
Project Ending Balance	\$2,707,871	\$ 3,843,430	\$ 3,495,812
Capital Projects Fund 416			
Revenues AIP Grants	\$ 4,140,000	\$ 2,640,000	\$ 8,720,000
Local Special Capital Projects	\$ (1,395,000)	\$ (755,000)	\$ (1,035,000)
Interfund transfer from Fund 415-Matc	\$ 421,795	\$ 264,000	\$ 872,000
Interfund transfer from Fund 415-CP	\$ 1,395,000	\$ 755,000	\$ 1,035,000
Ending Cash	\$ 2,707,871	\$ 3,843,430	\$ 3,495,812
Fund 405 CFC (Customer Facility Charge - Rent)			
Beginning Cash	\$ 13,843,486	\$ 13,850,000	\$ 15,820,250
Revenues	\$ 1,975,000	\$ 1,970,250	\$ 2,100,000
Expenditures	\$ (2,500,000)	\$ -	\$ (6,500,000)
Ending Cash	\$ 13,318,486	\$ 15,820,250	\$ 11,420,250
Fund 410 PFC (Passenger Facility Charge)			
Beginning Cash	\$ 1,865,131	\$ 1,817,031	\$ 1,840,131
Revenues	\$ 3,940,000	\$ 3,988,100	\$ 3,940,000
Expenditures	\$ (3,640,000)	\$ (3,965,000)	\$ (3,640,000)
Reimburse Prior Year Matching Funds			\$ (1,500,000)
Ending Cash	\$2,165,131	\$ 1,840,131	\$ 640,131

