COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT General Services Agency Airport Services	(2) MEETING DATE 7/23/2013	(3) CONTACT/PHONE Richard Howell 781-5205	
(4) SUBJECT Report to the Board regarding the financial condition of the GSA - Airport Services.			
(5) RECOMMENDED ACTION It is recommended that the Board receive and file the financial status report on the GSA - Airport Services.			
(6) FUNDING SOURCE(S)	(7) CURRENT YEAR FINANCIAL IMPACT $0.00	(8) ANNUAL FINANCIAL IMPACT $0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. ___) {X} Board Business (Time Est: 15 min)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances {X} N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5th's Vote Required {X} N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { X} N/A Date: 3/5/2013	
(17) ADMINISTRATIVE OFFICE REVIEW Vincent Morici			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo

TO: Board of Supervisors

FROM: General Services Agency / Richard Howell
781-5205

DATE: 7/23/2013

SUBJECT: Report to the Board regarding the financial condition of the GSA - Airport Services.

RECOMMENDATION

It is recommended that the Board receive and file the financial status report on the GSA - Airport Services.

DISCUSSION

On March 5, 2013 and again during budget hearings in June 2013, the Board requested specific information relating to the General Services Agency - Airport Services fiscal health. This report provides fiscal outlooks for Airport Services using status quo budgets developed for FY 2013-14 as a baseline. The report will focus on two aspects:

1. The impacts of decreasing or increasing enplanement levels against the status quo budget over a five-year period, and
2. Measures that can be used to offset the current forecasted operational shortfalls.

Airport management acknowledges the purpose of this report was to address Board's concerns regarding what appeared to be a need for the County to subsidize the Airports functions sometime in the future. As a rule, airport management budgets in a very conservative manner opting for carrying expenditure to revenue imbalance while working through the fiscal year to address such imbalances. The Airport currently has a cash balance in excess of $500,000 to cover operational imbalances. In the last two budget submissions, Airport Services forecast operational imbalances in the range of $200,000 to $240,000. However, actual performance mitigated those forecasted imbalances by fiscal year end. Airport Services finished FY 2012-11 with a $2,200 shortfall and FY 2012-13 resulted in a $70,000 profit.

The need to use the Airport's cash balance in the future will depend on a variety of variables. The ability to moderate Airport expenses related to law enforcement and fire protection services as well as the Airport's ability to enhance its revenues are major factors in determining the future fiscal health of the Airport. Increasing the number of enplanements from the Airport is a key component of revenue generation. Strategies to maintain existing air service and attract new and/or expanded commercial air service to the San Luis Obispo County Regional Airport may include the concept of revenue guarantees for commercial air carrier service. Replacement of the existing terminal space may also help generate additional revenues. These latter two concepts are discussed in separate reports that follow this report.

Before addressing the details of this report, some assumptions need to be stated. First, both the San Luis Obispo County Regional Airport and Oceano County Airport are governed by Federal Aviation Regulations (FAR) that are promulgated by the Federal Aviation Administration (FAA). Both airports are also considered Obligated Airports by the FAA in that Federal grant funds have been expended to improve these facilities. In this obligated capacity, Airport Services has the additional responsibility to meet the FAA Grants Assurances agreed to when the Federal Grants were accepted. For example these Assurances require the airport sponsor to:

1. Meet or follow specific, environmental, economic and operational requirements not applicable to an unobligated airport,
2. Adopt compatible land use actions,

3. Manage the Airport to be as financially self-sufficient as practical, and
4. Prevent the diversion of airport revenue to non-airport uses.

Second, there are many functions performed by Airport Services that would be required or necessary regardless of the level of activity within the airport system, most specifically those related to safety, security and health. An analysis has revealed that airport staff, aircraft rescue and firefighting, and law enforcement support expenses represent roughly 60% of the operating costs of Airport Services annually. Other ongoing expenses, such as utilities and existing debt service, comprise another 20% of the budget.

Enplanement Forecasts

This report uses the Airport's FY 2013-14 budget submission as a baseline to present three enplanement forecasts over a five year period. The Airport's FY 2013-14 budget identified planned expenditures $286,391 greater than planned revenues. The budget assumes the use of the Airport's unallocated cash balance to cover the difference between expenditures and revenues.

This report includes separate forecasts for no growth, a 4% enplanement decrease, and 4% enplanement increase over the same period. The resultant changes in passenger counts were then converted into revenue and a forecast end of year result was made. This approach incorporates all fees and charges associated with enplanements which historically results in approximately $13 in revenue to the Airport for each enplaned passenger. The 4% growth model is based on a 20 year trend identified during the Airport's 2005 Master Plan for the Regional Airport. The 4% decrease was established by looking at the last six years of activity where the overall trend was approximately -4% per year. The findings in these areas were as follows:

Enplanement Trend Analysis	Trending Budget Imbalance	Revenue/Expense Imbalance in FY 2017-18
Baseline with no growth	Increasing	-$326,391
Baseline with 4% decrease	Increasing	-$609,248
Baseline with 4% increase	Decreasing	-$7,306

The above illustrates the significance of revenue from enplanements to the Airport's budget and provides perspective on the importance to maintain current commercial air service levels as well as the Airport's efforts to increase these levels.

Measures to Address Operational Imbalances

Analysis of measures that could be adopted to offset the operational imbalances being experienced by the Airport is described below. Assumptions for this discussion are based on no fiscal impact (positive or negative) of enplanements and no change in the County's airport system that would modify staffing levels or other activities.

Three areas with potential to mitigate the current operational short falls are: new revenue generation, fee management and expense management.

<u>New Revenue</u>

The following revenue generations by both aeronautical and non-aeronautical means are being pursued for possible implementation:

- Installation of a cell tower at the regional airport (To be brought to the Board in September 2013)
- Additional marketing and advertising revenue concessions (Adopted by the Board April 23,2013)
- A proposal for creation of a concrete/asphalt storage location on an airport owned lot

Taken together, the new revenue from these initiatives would be on the magnitude of $**72,000** annually.

<u>Fee Management</u>

Although the Airport's fee structure has been modestly adjusted over the years there are still areas where implementation is not complete. Further fee management could be employed to cover costs of providing services and reconcile areas where tenant payments are made on the "honor system". For example, ground transportation providers pay per vehicle or per trip. The provider then reports their activity to Airport Services, but there is no check or balance to determine if the permitted vehicles came to the airport from the provider's fleet or how many trips were made.

Current Fees

Analysis found that three current fee areas could potentially help mitigate operational shortfalls. A modest adjustment to Aviation/ Jet Fuel Flowage Fee of $0.01 per gallon and an increase of $1.00 per day to our Parking Rates would have a positive impact on revenues. The flowage fees have not been updated since the 1990's and the last adjustment to parking fees was in 2007. If adjustments are warranted, this would require a Board action. Additionally the continued implementation of Ground Rental Rates adopted by the Board in 2011 is having and will continue to have favorable impact to the revenue creation in this area.

Area	Proposed Change	Change Based on FY 2011-12 Activity
Aviation/Jet Fuel Flowage Fee	Increase by $0.01/gallon	$59,000
Parking Rates	Increase Daily Rates by $1/day	$77,400
Land Rental Rates	Continued implementation	$15,000
	Total	**$146,000**

Cost Recovery/Revenue Generation Fees

The Airport has many different tenants and customers and has identified areas where 1) the fees being paid to the Airport for the services being provided are low, non-existent, or based solely on reporting of the fee provider; 2) the actual costs of providing support to a customer is not recovered; or 3) services are being provided with no cost recovery at all. To mitigate these issues the Airport could adjust or add fees with the goal to further recover staff costs or provide revenue generation. Six potential fees have been identified that staff will be examining the merits of in the future. While difficult to approximate, revenue impact could start out as **$10,000** annually.

Cost Recovery/Revenue Generation Fees

Type of Fee	Rational for fee/Area Effected	Annual Revenue Forecast
Annual Renewal Fee: Annual administrative renewal fee of $100 for each of the ten current providers to recover some of the annual staff costs related to insurance and contract compliance.	Cost Recovery/ Ground Transportation	$1,000
Expedited Ground Transportation Permit: Airport Services is frequently approached by unpermitted transportation providers wanting airport access in a few days. Staff will drop all other projects to accommodate such requests, but the fee collected for such activity is far removed from the actual staff time to produce such a permit. A permit fee of $100, which is double the normal permit process fee, would recover some of the administrative costs for last minute permits. On average the Airport receives nine to Twelve requests per year.	Cost Recovery/ Ground Transportation	$ 1,000
Access/Use Permit Processing Fee: Fee charged to any entity requesting a new/renewed permit of $50.	Cost Recovery: All Users	$1,000
Unsolicited Proposal Review Fee: The purpose would be to recover administrative staff time in researching and processing unsolicited proposals at a cost of $1,000 per review. Examples of this would be for activities not performed at the airports such as skydiving, glider activity, etc.	Cost Recovery: All Proposers	$2,000
Hangar Permit Reinstatement Fee: Fee would recover administrative staff time for collecting expired documents or other required information related to a contract breach. At any given time the Airport may have a half dozen tenants with lapsed documents including insurance. The fee would be a incentive for tenants to keep their required documents current. The fee would be $100 for first occurrence and $200 for each occurrence thereafter.	Cost Recovery: Site N tenants	$2,000
Concession transfer fee: Recover administrative costs of drawing	Cost Recovery: All	$2,000

up new agreements, collecting insurance and other necessary processing for a transfer. The fee would be $500 for agreements less than three years and $1,500 for agreements longer than three years. This provisions would ultimately be added to new and existing agreements where applicable.	Users	
Total		**$10,000**

This exercise with fees is strictly a “what if” scenario. Should the Airport pursue this fee proposal, staff would follow the established process for obtaining Board approval for fee creation. There would also be outreach in advance of such a proposal to the impacted stakeholders for input and feedback.

Expense Management

In the FY 2012-13 budget, Aircraft Rescue and Firefighting (ARFF) costs were $484,000 representing 13% of the operating budget. Law Enforcement (LE) costs were $465,000 or 12%. Staff is evaluating both areas to improve efficiencies and best utilize assets. While there are no assurances of any savings in these areas, the initial review identified a potential annual savings in favor of the airports. Due to the fact that both initiatives involve agencies outside of the General Services Agency, no savings will be forecast here due to the unknown outcome of the proposals.

In reviewing annual expenses, staff found the City of San Luis Obispo had been overcharging Airport Services for water by 100%. A three year review resulted in a $92,000 refund and an estimated ongoing annual savings of approximately $30,000.

Should staff take the steps outlined herein, the overall forecast for the initiatives would be as follows:

Description	**Annual Revenue Increase**
New Revenue Generation	$72,000
Fee Management	$156,000
Expense Management (Water Expense Adjustment)	$30,000
Annual Projected Revenue	**$258,000**

The passenger forecasts and measures outlined above represent the best and worst cases for the Airport. It should be noted that historically the Airport’s enplanements have remained steady. Going back to when the Airport began keeping records in CY 1975, there has been one period of time where enplanement levels declined two years in a row in 2008 and 2009 as a result of the recession.

The Airport had been fiscally self-sufficient from 1992 through 2011. In FY 2011-12, the Airport forecasted that expenses would exceed revenues in the amount of $58,000. Through the efforts of Airport staff to manage the issue the year end result was the need to use approximately $2,200 of the Airport’s unallocated cash balance to cover the fiscal imbalance. The FY2012-13 budget again forecasted a need to use over $200,000 of cash to cover anticipated imbalance between expenses and revenues. Through the efforts of Airport staff to control costs and review past expenditures, it is now projected that the Airport revenues will exceed expenses and no cash will be used to cover any expense in FY 2012-13. A large unknown in this discussion would be any future changes in the cost of providing firefighting and law enforcement services to the Airport. Any movement in these areas that benefit the Airport could be substantial.

Finally, the report presents a number of options to help offset the operational shortfalls being experienced. The adoption of any or all these initiatives would increase the ability of the Airport to finance itself should there be an unprecedented period of declining revenues.

Conclusion

Airport Services aggressively monitors is budget and cash flow. Staff is actively looking for expense areas that could be improved and constantly adjust the priorities and timing of expenditures to meet goals. As stated above, Airport Services cash balance as of June 30, 2013 was over $500,000. The length of time that Airport can sustain operations under declining revenues is dependent upon the amount of revenue shortfall. Based upon FY 2013-14 budget numbers which forecast an operating loss of roughly $250,000, the Airport's cash could be used to offset operational imbalances for two years. . If the expenditure to revenue imbalance is less, the time frame would be extended. As an example, if the expenditure to revenue imbalance is approximately $100,000, the Airport may be able to sustain operations for approximately four to five years before the Airport would require subsidies or further evaluation of service levels.

Although the Airport has forecasted imbalances, the actual results over the past two years varied from the forecast. The past two years, the Airport forecasted expenditures to be in excess of revenues by $200,000 or more. However, the Airport completed FY 2011-12 with only a $2,200 shortfall and the FY 2012-13 budget is projected to complete the year with a profit of approximately $70,000. If this trend continues, the Airport cash could last indefinitely. Your Board has asked for regular fiscal reporting from the Airport and this is done through the County's quarterly fiscal reports. The Airport will continue to provide updates through the quarterly report process.

This report provides a snapshot of the major factors that drive the Airport's operational expenses and the efforts to control and reduce expenses. It also identifies potential methods to increase Airport revenues through moderate changes to the fee structure for Airport services. Lastly, it highlights the importance of enplanement levels on the Airport's overall fiscal health. Staff is committed to continue to seek ways to improve the Airport's overall fiscal condition by evaluating how the Airport spends it operational funding as well as seeking out reasonable ways to increase revenues that support the Airport.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

This report identifies the financial position of the Airport and provides alternative outlooks to the future of the Airport finances. The cost for preparation of the report was in staff time that was already included in the Airport budget.

RESULTS

Providing information about Airport finances will assist the community and decision makers in understanding the factors and potential options associated with the Airport's fiscal condition. This may help provide context for future decisions related to the operation of the Airport and contribute to the communitywide results for a prosperous and well governed community.

ATTACHMENTS