

## SALT LAKE CITY COUNCIL STAFF REPORT

### BUDGET ANALYSIS – FISCAL YEAR 2004-05

**DATE:** April 9, 2004

**SUBJECT:** **DEPARTMENT OF AIRPORTS**

**STAFF REPORT BY:** Gary Mumford

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The Department of Airports is an enterprise fund of the City and does not receive any general fund revenue or subsidy. The proposed budget makes it possible for the Department of Airports to reduce airline rents and fees at a time of financial hardship for the airlines. The proposed capital project budget of \$166 million (1) continues the terminal modifications to place x-ray security equipment inline with the airline baggage system and to add space for those meeting or greeting passengers, (2) continues the terminal roadway project, and (3) includes several improvements to the airfield. The budget was reviewed in detail by the Airport Advisory Board's finance committee, and the proposed budget was also reviewed and accepted by airline representatives. The Airport Advisory Board approved the proposed budget during its meeting on March 17, 2004.

DEPARTMENT OF AIRPORTS PROPOSED BUDGET					
	2003-04 Budget	2003-04 Projected Actual	2004-05 Proposed Budget	Difference from projected actual	Percent Change
<b>Sources of funds</b>					
Operating revenue	\$ 85,014,400	\$ 82,970,200	<b>\$ 82,128,800</b>	\$ (841,400)	(1.0%)
Other sources of funds (grants, interest and accumulated passenger facility charge revenue)	166,335,700	88,098,300	<b>160,557,600</b>	72,459,300	82.2%
<b>Total funds available</b>	<b>\$251,350,100</b>	<b>\$171,068,500</b>	<b>\$242,686,400</b>	<b>\$ 71,617,900</b>	<b>41.9%</b>
<b>Uses of funds</b>					
Operating expenses	\$ 65,581,600	\$ 64,979,600	<b>\$ 71,564,900</b>	\$ 6,585,300	10.1%
Capital outlay	127,979,600	44,908,100	<b>166,555,400</b>	121,647,300	270.9%
Debt service	9,727,800	7,720,800	<b>4,266,100</b>	(3,454,700)	(44.7%)
Debt reduction	46,799,200	53,160,000	-		
Increase of reserves	1,261,900	300,000	<b>300,000</b>		
<b>Total uses of funds</b>	<b>\$251,350,100</b>	<b>\$171,068,500</b>	<b>\$242,686,400</b>	<b>\$ 71,617,900</b>	<b>41.87%</b>

Estimated operating revenue exceeds proposed operating expenses by \$10,563,900. A summary of estimated operating revenue and proposed expenses is on the following page.

DEPARTMENT OF AIRPORTS PROPOSED OPERATING BUDGET				
	Adopted 2003-04	Proposed 2004-05	Difference	Percent Change
<b>Rent, leases, reimbursements</b>				
Terminal rent	\$23,742,900	<b>\$19,237,900</b>	\$ (4,505,000)	(19.0%)
Landing fees	13,130,300	<b>11,611,400</b>	(1,518,900)	(11.6%)
Other building & site leases	7,345,900	<b>7,802,500</b>	456,600	6.2%
Security changes for screening	854,100	<b>481,600</b>	(372,500)	(43.6%)
Ground transportation	588,700	<b>586,700</b>	(2,000)	(0.3%)
General aviation hangars	833,200	<b>866,600</b>	33,400	4.0%
Fuel farm lease	766,300	<b>766,300</b>		
Tenant telephone/paging fees	527,200	<b>554,400</b>	27,200	5.2%
Extraordinary service charges	456,200	<b>259,700</b>	(196,500)	(43.1%)
Passenger boarding bridge fees	-	<b>796,200</b>	796,200	
<b>Concessions</b>				
Auto parking	14,309,200	<b>15,340,100</b>	1,030,900	7.2%
Car rental	9,457,600	<b>11,257,600</b>	1,800,000	19.0%
News & gifts	3,379,400	<b>3,095,300</b>	(284,100)	(8.4%)
Food service	2,309,000	<b>2,180,400</b>	(128,600)	(5.6%)
Advertising	2,134,600	<b>2,151,600</b>	17,000	0.8%
Flight kitchen	1,140,200	<b>1,008,400</b>	(131,800)	(11.6%)
Vending	358,700	<b>407,600</b>	48,900	13.6%
Public telephone	200,000	<b>100,100</b>	(99,900)	(50.0%)
<b>Other revenue</b>				
State aviation fuel tax	2,329,000	<b>2,329,000</b>		
Aircraft fire training revenue	464,200	<b>475,000</b>	10,800	2.3%
Fuel oil royalties (6% applicable to those not paying landing fees)	374,900	<b>310,500</b>	(64,400)	(17.2%)
Other operating revenue	312,800	<b>509,900</b>	197,100	63.0%
Total operating revenue	85,014,400	<b>82,128,800</b>	(2,885,600)	(3.4%)
<b>Operating expenses</b>				
Maintenance (239 FTEs)	30,390,000	<b>32,509,400</b>	2,119,400	7.0%
Operations (225.8 FTEs)	17,484,400	<b>17,875,000</b>	390,600	2.2%
Administration & Commercial Services (28 FTEs)	5,034,100	<b>4,769,100</b>	(265,000)	(5.3%)
Finance & Accounting (19.5 FTEs)	4,947,400	<b>8,789,400</b>	3,842,000	77.7%
Engineering (47 FTEs)	3,102,100	<b>3,097,600</b>	(4,500)	(0.1%)
Planning & Environmental Services (10 FTEs)	2,545,100	<b>2,446,600</b>	(98,500)	(3.9%)
Public Relations & Marketing (2 FTEs)	1,147,500	<b>1,162,400</b>	14,900	1.3%
Administration (4.5 FTEs)	931,000	<b>915,400</b>	(15,600)	(1.7%)
Total operating expenses	65,581,600	<b>71,564,900</b>	5,983,300	9.1%
Net operating income	\$19,432,800	<b>\$10,563,900</b>	\$(8,868,900)	(45.6%)

- Airline rents and landing fees – The Department of Airports continues to work with and support the airline carriers by keeping airline rates low at a time of financial hardship for the airlines. Charges to airlines are based on actual costs including debt service. As a result of paying off some of the Airport's bonded debt early, the Department of Airports is able to keep airline rates low.
- Operating revenue – Operating revenue is estimated to decrease by \$841,400 from projected current year revenue (fiscal year 2004). This is primarily due to a reduction in terminal concession revenue caused by a projected 2% decline in passengers.
- Operating expenses – Council staff reviewed the budget detail comparing the 2004 adopted budget and projected actual expenses to the proposed 2005 budget for each expense object code. The Airport's finance & accounting director provided explanations for variances. The airline carriers scrutinize the Airport's proposed operating budget for the airfield and terminals each year because the terminal rents and landing fees are based on these operating expenses. The advantage that the carriers have over Council staff in reviewing the budget is that the airline carriers understand the industry and have comparable data from other airports where they also have operations. *In some future year, the Council may wish to hire an independent review of the Airport by an experienced consultant. The Council's last independent review of the Airport was in 1997.*

Salaries and benefits – Salaries and benefits are proposed to increase \$1,590,000 or 4.7% including large increase in retirement and insurance premiums. The Airport employs 575 employees. Sixty-two percent of the Department's employees are 100 and 200 series employees with pay increases included in the third year of a memorandum of understanding agreed to by the City and the American Federation of State County & Municipal Employees Local 1004 (AFSCME). Contract-required salary increases of 2½% effective June 20, 2004 and merit increases on each employee's employment anniversary date (unless topped out) are included in the proposed budget. The Department developed the budget before the Administration made any decisions regarding pay adjustments for other employees. The Department of Airports included a 3% adjustment for other employees, however, actual increases will be contingent upon recommendation by the Mayor and adoption by the Council. If a salary increase is not adopted or if a lesser amount is approved, airline rents and fees will be adjusted downward accordingly. Pension and health insurance premiums are increasing for all City employees. No new employee positions are requested for fiscal year 2005.

Maintenance of passenger boarding bridges - The airline use agreement was renewed last year. This agreement allowed the Airport to acquire the airline's boarding bridges (Jetways). This will give the Airport more control over space in the concourses. Maintenance cost of the boarding bridges is a new budget item of \$673,200.

Passenger incentive rebates – The Department of Airports in implementing a new passenger incentive rebate program to encourage the airlines to bring more passengers to the Airport. This incentive was part of the three-year airline use agreement to support the airline carriers at a time of financial hardship for the airlines. Under the program, signatory airline carriers receive a 36 cent rebate on every passenger enplaned. The program is projected to cost \$3,280,900 and is budgeted in the Finance & Accounting Division resulting in a large percentage increase for that division.

Administrative service fees to the general fund – The Department of Airports reimburses the general fund about \$1.2 million for central services including accounting, payroll, purchasing, human resource management, legal, cash management, Mayor, and City Council.

## **PROPOSED CAPITAL OUTLAY AND DEBT SERVICE BUDGET**

The budget for capital outlay and debt service for the Department of Airports is proposed to be \$171,121,500 for fiscal year 2005. The funding sources and the proposed capital budget are as follows:

<b>DEPARTMENT OF AIRPORTS PROPOSED CAPITAL BUDGET</b>				
	<b>Projected Actual 2003-04</b>	<b>Proposed 2004-05</b>	<b>Difference</b>	<b>Percent Change</b>
<b>Sources of funds</b>				
Revenue from operations	\$ 17,990,600	<b>\$10,563,900</b>	\$ (7,426,700)	(41.3%)
Use of passenger facility charge (PFC) revenue	41,906,000	<b>80,111,300</b>	38,205,300	91.2%
Federal grants	16,772,100	<b>43,117,800</b>	26,345,700	157.1%
Interest income	3,000,000	<b>2,000,000</b>	(1,000,000)	(33.3%)
Use of Airport reserves	26,420,200	<b>35,328,500</b>	8,908,300	33.7%
<b>Total funds available</b>	<b>\$106,088,900</b>	<b>\$171,121,500</b>	<b>\$ 65,032,600</b>	<b>61.3%</b>
<b>Capital outlay &amp; debt service</b>				
Capital improvements	\$39,086,900	<b>\$161,115,100</b>	\$122,028,200	312.2%
Equipment	5,821,200	<b>5,440,300</b>	(380,900)	(6.5%)
Debt service	7,720,800	<b>4,266,100</b>	(3,454,700)	(44.7%)
Debt reduction	53,160,000		(53,160,000)	(100.0%)
Increase to reserves	300,000	<b>300,000</b>		
<b>Total capital outlay, debt service &amp; increased reserves</b>	<b>\$106,088,900</b>	<b>\$171,121,500</b>	<b>\$ 65,032,600</b>	<b>61.3%</b>

Capital Improvement Program – The proposed budget includes \$161,115,100 for capital improvement projects for fiscal year 2004-05. Of this amount, \$43,117,800 is contingent upon funding from the Federal Aviation Administration. Grant funded projects will not be started before the grants are awarded. The budget proposes that projects costing \$80,111,300 be funded from passenger facility charges. The Airport can assess a passenger facility charge as long as a capital-improvement need can be shown. Capital improvement projects must meet certain criteria to be eligible to be funded with passenger facility charges. The Airport currently charges \$4.50 per enplaned passenger.

For the past several years, the Department of Airports budgeted \$1,500,000 for capital improvement reserves for unanticipated project costs and \$2,000,000 for economic development reserves for tenant requests that may require quick action. The Department of Airports is again requesting these contingencies to allow the Airport to respond quickly to changing demands of Airport tenants.

- Equipment replacement - Capital equipment requests of \$5,440,300 are based on a 5 to 10-year replacement schedule. Page 20 of the Department's budget booklet contained a detailed schedule of equipment proposed for replacement. The Department proposes to fund 71% of the equipment through passenger facility charge revenue.
- Passenger boarding bridges – Two projects are relating to acquiring the airline boarding bridges (Jetways). The project to purchase and refurbish the boarding bridges is estimated to cost \$4,733,000. The Department is proposing to replace the aircraft power and pre-conditioned air systems for a cost of \$7,609,000 as a part of the ownership of the passenger boarding bridges.
- Capital improvement projects relating to new terminal – New terminal facilities are ready for design when airline financial stability allows for a prudent development of new facilities. A \$34.2 million project is proposed relating to the third phase of a \$60 million project to reconfigure the access road to service the future terminal location. Parking and rental car fees are considered the funding source for these roadway improvements.
- Capital improvement projects relating to general aviation – The Department of Airports continues to develop Airport II and Tooele Valley airports. Improvements at these two airports will help to encourage flight training schools and general aviation to use these alternative airports reducing the overcrowding of the airspace around Salt Lake City International Airport.

The following table summarizes the proposed capital improvement projects by funding source for fiscal year 2004-05.

<b>CAPITAL IMPROVEMENT PROGRAM PROPOSED PROJECTS</b>			
<b>Project Description</b>	<b>Airport Funds</b>	<b>Passenger Facility Charge</b>	<b>Federal Grant</b>
<b>Projects in progress</b>			
<b>Re-appropriation of remaining budgets</b>			
Airport II Master Plan Update			85,000
Airport Layout Plan/Environmental Update Phase I – support for the Airport's development program and for obtaining federal grants		300,000	
Airport Property Security Fencing Phase I – including TV cameras and automated security gates		2,491,000	
Airport Wide Fire Alarm System Integration – upgrade existing systems	462,500		
Concourse A Apron Reconstruction Phase I – replace pavement		91,000	819,000
East Apron Rehabilitation Phase III – replace pavement		169,600	1,526,400
East Side Oil/Water Separator – stormwater automated separator		356,000	
Land Acquisition (Gillmor exchange)		56,700	548,300
Landside Road Reconfiguration (West) – second phase of project to reconfigure the access road to service future terminal location	25,509,100	9,363,900	
North Support Tunnel Road Rehabilitation – repair pavement		326,600	
Runway 16L/34R Overlay – repair rutted and uneven surface		438,600	5,461,400
Security Equipment Detection Modifications – security cameras, motion sensors, security stations, expand control center		521,000	
Taxiway H Pavement Reconstruction – taxiway is deteriorating		691,000	3,000,000
Terminal Modifications – increase passenger circulation areas at ticket counters; add centralized bag screening facilities and conveyor systems; install permanent bag screening along the terminal road for skycaps		17,325,000	10,875,000
Tooele Land Acquisition – establish runway protection zones		161,500	1,562,500
Tooele Valley Airport taxilane – to serve future growth		106,000	
West Apron Paving and Support Infrastructure – additional concrete aprons to support operations and improve capacity		1,300,000	11,700,000
<b>Proposed New Projects</b>			
Airfield Lighting Control System Upgrade – to allow the tower to select the right combination of light systems & intensity for aircraft		893,000	
Airfield Property Security Fencing - 8-foot tall chain link topped with 3 strands of barbed wire		960,000	
Airport Layout Plan/Environmental Update Phase II – support for the Airport's development program (new terminal, concourses, etc.)		37,500	362,500
Apron Deicing Modifications – to expand the collection boundaries because some glycol fluid is being blown into the storm drain system		2,200,000	
Asphalt Overlay Program – certain parking lots and roadways	499,000		
Land Acquisition (Noise approach protection)		250,000	2,418,000
Landside Road Reconfiguration – East	21,534,000	12,647,000	
Midfield Pump Station & Outfall Drain Line – 4 pumps & 8,500 feet of pipe to discharge any standing water to the surplus canal		800,000	
Purchase and refurbish of passenger boarding bridges		4,733,000	
400 Hz Aircraft Power & Pre-conditioned Air – as part of the purchase of the passenger boarding bridges, the power and air systems will be replaced		7,609,000	
Taxiway H Pavement Reconstruction – to replace asphalt pavement with 16 inches of concrete		657,500	2,538,500
Taxiway M Reconstruction – to replace 27,300 sq yards of concrete		1,595,400	1,541,600
Watermain Continuous Loop (including \$679,600 from Public Utilities)	1,092,000		



<b>Contingencies</b>			
Economic Development Reserve Used – Tenant requests or other economic development projects that may require quick action to accomplish.	2,000,000		
Capital Improvement Program Committee Reserve - Unanticipated project costs due to field conditions or other unexpected circumstances.	1,500,000		
<b>Total Capital Improvement Program Fiscal year 2004-05</b>	<b>\$52,596,600</b>	<b>\$66,080,300</b>	<b>\$42,438,200</b>

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## *Additional Information*

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### **BACKGROUND**

The Salt Lake International Airport is operated and managed by the Salt Lake City Department of Airports, a department of Salt Lake City. The airfield consists of three air carrier runways and a general aviation runway. There are two terminals, five concourses and 71 aircraft gates. The department also operates Tooele Valley Airport and Airport II in West Jordan. These two airports are general aviation/reliever facilities. The Department of Airports is an enterprise fund of Salt Lake City requiring no funding from property taxes or appropriations from the City's general fund. Capital requirements are met from earned surpluses, revenue bonds, passenger facility charges and Federal Aviation Administration grants under the Airport Improvement Program.

The Airport Board is a nine-member advisory board of citizen volunteers that gives advice and makes recommendations to management of the Department of Airports and to the Mayor and City Council regarding the affairs of the airport. The Mayor, each City Council Member, the Director of Airports, the City Attorney and the City Engineer, or their designees, are ex officio nonvoting board members. The Board may designate subcommittees as it desires to study, consider and make recommendations on matters that are presented to the Board.

### **LEGISLATIVE INTENT STATEMENTS**

No legislative intent statements are outstanding for the Department of Airports.

*During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Department of Airports.*