SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2005-06

DATE: April 14, 2005

SUBJECT: **DEPARTMENT OF AIRPORTS**

STAFF REPORT BY: Jennifer Bruno, Budget & Policy Analyst

CC: Rocky Fluhart, Sam Guevara, Tim Campbell, Jay Bingham, Joseph Moratalla, Steve Fawcett, Susi Kontgis, DJ Baxter

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The Department of Airports is the city department that manages the Salt Lake City International Airport, Airport II and the Tooele Valley Airport. Airport II and Tooele Valley Airport are general aviation airports and serve as reliever airport to the International Airport. 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 $118 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.

DEPARTMENT OF AIRPORTS
PROPOSED BUDGET

	2004-05 Budget	2005-06 Proposed Budget	Difference from FY 2005 Budget	Percent Change
Sources of funds				
Operating revenue	$82,128,800	**$ 90,547,800**	$ 8,419,000	9.6%
Other sources of funds (grants, interest and passenger facility charge)	160,341,488	**109,149,000**	(51,192,488)	-53.7%
Total funds available	$242,470,288	**$ 199,696,800**	$ (42,773,488)	-23.4%
Uses of funds				
Operating expenses	$71,348,788	**$ 75,288,800**	$ 3,940,012	6%
Capital outlay	166,555,400	**117,610,000**	(48,945,400)	-45%
Debt service	4,266,100	**5,344,000**	1,077,900	26%
Increase to Airport Improvement Fund Reserves	0	**1,104,000**	1,104,000	-
Increase of reserves	300,000	**350,000**	50,000	17%
Total uses of funds	$242,470,288	**$ 199,696,800**	$ (42,773,488)	-23%

DEPARTMENT OF AIRPORTS PROPOSED OPERATING BUDGET				
	Adopted 2004-05	Proposed 2005-06	Difference	Percent Change
Operating Revenue				
Rent, leases, reimbursements				
Terminal rent	$ 19,237,900	**$ 20,706,000**	$ 1,468,100	7.6%
Landing fees	11,611,400	**13,766,000**	2,154,600	18.6%
Other building & site leases	7,665,500	**8,039,200**	373,700	4.9%
Security changes for screening	481,600	**493,400**	11,800	2.5%
Ground transportation	586,700	**619,200**	32,500	5.5%
General aviation hangars	866,600	**851,100**	(15,500)	-1.8%
Fuel farm lease	766,300	**766,300**	-	0.0%
Tenant telephone/paging fees	554,400	**578,500**	24,100	4.3%
Extraordinary service charges	259,700	**307,400**	47,700	18.4%
Passenger boarding bridge fees	796,200	**587,500**	(208,700)	-26.2%
Concessions			-	
Auto parking	15,340,100	**17,998,800**	2,658,700	17.3%
Car rental	11,257,600	**12,281,700**	1,024,100	9.1%
News & gifts	3,095,300	**2,883,400**	(211,900)	-6.8%
Food service	2,180,400	**2,546,000**	365,600	16.8%
Advertising	2,151,600	**2,394,600**	243,000	11.3%
Flight kitchen	1,008,400	**878,100**	(130,300)	-12.9%
Vending	407,600	**438,200**	30,600	7.5%
Public telephone	100,100	**79,700**	(20,400)	-20.4%
Other revenue				
State aviation fuel tax	2,329,000	**2,439,500**	110,500	4.7%
Aircraft fire training revenue	475,000	**694,800**	219,800	46.3%
Fuel oil royalties (6% applicable to those not paying landing fees)	310,500	**371,400**	219,800	46.3%
Other revenue	646,900	**827,000**	180,100	27.8%
Total operating revenue	$ 82,128,800	**$ 90,547,800**	$ 8,419,000	10.3%
Operating expenses				
Salaries and Fringe Benefits	$ 35,461,000	**$ 36,683,600**	$ 1,222,600	3.4%
Materials and Supplies	6,187,300	**6,904,900**	717,600	11.6%
Services	17,526,200	**18,842,800**	1,316,600	7.5%
Other Operating Expenses	6,342,600	**6,807,100**	464,500	7.3%
Intergovernmental Charges	5,830,800	**6,050,400**	219,600	3.8%
Total operating expenses	71,347,900	**75,288,800**	3,940,900	5.5%
NET OPERATING INCOME	$ 10,780,900	**$ 15,259,000**	$ 4,478,100	41.5%

OPERATING BUDGET FINDINGS

A. Operating revenue – Operating revenue is estimated to increase by $8,419,000 from the 2004-2005 budget (fiscal year 2005), to $90,547,800. This is primarily due to an increase in landed weight caused by more airline activity. Additional terminal revenue is due to the space occupied by the new carrier, Atlantic Southeast Airlines (ASA). 51% of the fiscal year 2005-06 total anticipated revenue relates to rents, leases and reimbursements. 3.3% of total revenue relates to cargo operations ($43,800 from the adopted amount for FY 2005). The Department of Airports is currently in the process of commissioning a study to assess future cargo market potential. Food concession revenue is projected to increase slightly with the major carrier Delta scheduling more connecting flights in Salt Lake City.

Future increases in revenue will be limited by food concession space. Flight kitchen revenue is declining as airlines reduce the number of meals on flights. Concession revenue (including parking and car rentals) accounts for 44% of the revenue budget. Other operating revenue accounts for 5% of total operating revenue with the state aviation fuel tax being the major item.

- Parking Revenue – Parking revenue is anticipated to increase by roughly $2.7 million from the FY 2005 adopted budget. This is largely due to an increase in local passengers who park at the airport, as well as a $1 increase in the maximum daily rate (implemented in January 2005).

B. Operating expenses – Operating expenses will increase by $3,940,412 over the budgeted FY 05 amount, to $75,288,800. This increase is attributable to increase in salary and benefit costs (No new FTE, however medical insurance rates increased by 11%), utilities rate increases, and the full year of providing passenger incentive rebates to airlines (FY 2005 accounts for a partial year of this program).

- Passenger incentive rebates – During FY 2004, the Department of Airports began implementing a passenger incentive rebate program to encourage the airlines to bring more passengers to the Airport. This incentive was part of the three-year use agreement to support the airline carriers at a time of financial hardship. Under the program, signatory airline carriers receive a 36 cent rebate on every passenger enplaned. The program is projected to cost $3,620,700 in FY 2006.
- Administrative service fees to the general fund – The Department of Airports reimburses the general fund for central services including accounting, payroll, purchasing, human resource management, legal, cash management, Mayor, and City Council. In FY 2006, the amount is expected to stay the same as the projected FY 2005 amount, $1,280,300.

BUDGET-RELATED FACTS

A. Salaries and benefits – The Department of Airports prepares its budget prior to knowing whether the Mayor will recommend any salary adjustments. The budget for the Department is reviewed by the airlines and the Airport Advisory Board well in advance of the Mayor's presentation of a recommended budget. The Department uses a 3% salary increase as a placeholder until the City Council determines whether there will be any actual salary increase. Health insurance premiums are increased by 11% this year.

a. No new employee positions are requested for fiscal year 2006. However, there was a net decrease of one FTE in the Operations Division, and a net increase of one FTE in the Maintenance Division.

b. There are a total of 11 positions in the FY 2006 budget that are not funded, representing about $688,000 in total cost, and 6 seasonal employees for an estimated cost of $93,300. Most of the full-time positions relate to the new development program and funding for the positions will be requested once the development program is ready to proceed.

B. 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.

C. Airport Police Officer Retirement – This year, the State Legislature adopted legislation that changed airport police officer retirement from 30 years of service to 20 years of service. This change in policy has been anticipated and budgeted for the past two budget years, though it has not taken effect until this year. This change is included in the amount of $450,000. This legislative change was supported by the Department of Airports, for the purpose of creating greater incentive for airport police officers to stay at the airport, increase police officer retention, and decrease new officer training costs.

PROPOSED CAPITAL OUTLAY AND DEBT SERVICE BUDGET

The budget for capital improvement, capital equipment, and debt service for the Department of Airports is proposed to be $123,304,000 for fiscal year 2006 (a 9% increase from projected FY 2005). The funding sources and the proposed capital budget are as follows:

DEPARTMENT OF AIRPORTS PROPOSED CAPITAL BUDGET				
	Projected Actual 2004-05	Proposed 2005-06	Difference	Percent Change
Sources of funds				
Net revenue from operations	$ 17,286,800	**$ 15,259,000**	$ (2,027,800)	-12%
Use of passenger facility charge (PFC) revenue	54,806,000	**61,765,600**	6,959,600	13%
Federal grants	36,702,400	**44,883,400**	8,181,000	22%
Interest income	2,400,000	**2,500,000**	100,000	4%
Use of Airport Improvement Program	1,445,400	**-**		
Total funds available	112,640,600	**124,408,000**	11,767,400	10%
Capital outlay & debt service				
Capital improvements	$ 102,698,100	**$ 114,534,000**	$ 11,835,900	12%
Equipment	5,440,300	**3,076,000**	(2,364,300)	-43%
Debt service	4,202,200	**5,344,000**	1,141,800	27%
Increase to reserves	300,000	**350,000**	50,000	17%
Increase to Airport Improvement Reserve	-	**1,104,000**		
Total capital outlay, debt service & increased reserves	**$ 112,640,600**	**$ 124,408,000**	$ 11,767,400	10%

Capital Improvement Program – The proposed budget includes $114,534,000 for capital improvement projects for FY 2006 (an $11 Million increase from projected FY 2005). Of this amount, $44,883,400 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 a total of $51,485,600 in projects 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 Federal Aviation Administration (FAA) criteria to be eligible to be funded with passenger facility charges (PFC). 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 appropriations to allow the Airport to respond quickly to changing demands of Airport tenants.

A. Terminal modifications – The proposed budget includes projects to place x-ray security equipment inline with the airline baggage system and to add space for those meeting or greeting passengers.

B. Equipment replacement - Capital equipment requests of $3,076,000 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 4.2% of the equipment through passenger facility charge revenue (compared to 71% in FY 2005). This change is due to the type of equipment that is legally allowed to be purchased with PFC revenue. In the next fiscal year, less equipment is eligible to use this funding source.

C. Capital improvement projects relating to new terminal – The Department of Airports has initiated a series of capital improvement projects at Salt Lake City International Airport based upon the results of its 1997 Master Plan Update. The improvements are intended to accommodate current and future activity levels at the airport. These projects will ultimately provide a new consolidated terminal for use by all airlines, new concourses, and expanded parking and landside improvements. The new terminal facilities are ready for design when airline financial stability allows for a prudent development of new facilities. The budget includes $26 million to continue a project relating to access roads to service the existing terminal and future terminal locations. The western portion of the project is expected to be completed by May 2005, and the eastern portion of the project is expected to be completed by November 2006.

D. 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 2005-06.

CAPITAL IMPROVEMENT PROGRAM PROPOSED PROJECTS				
Project Description	**Airport Improvement Program Funds / Federal Grants**	**Airport Funds**	**Passenger Facility Charge Funds**	**Total FY 05/06 Funding**
Projects in progress				
Sterile Corridor Expansion (to accommodate simultaneous international carrier arrivals)			1,000,000	$ 1,000,000
Airport II Master Plan Update	80,000			80,000
Airport Layout Plan/Environmental Update Phase I – support for the Airport's development program and for obtaining federal grants			50,000	50,000
Land Acquisition (Gilmor Exchange)	605,000			605,000
Landside Road Reconfiguration West		1,404,000		1,404,000
TVA Land Acquisition	1,651,500		183,500	1,835,000
Taxiway H Reconstruction	1,709,000		691,000	2,400,000
Terminal Modifications	11,945,000		17,325,000	29,270,000
West Apron Paving Phase III	8,000,000			8,000,000
400 Hz/ PC Air			4,800,000	4,800,000
Airfield Lighting Control System			669,000	669,000
Airport Property Security Fencing - Phase II			800,000	800,000
Airport II Tie Down Reconstruction	351,000		28,000	379,000
Taxiway H Pavement Reconstruction (H2 H4)	7,342,500		657,500	8,000,000
Taxiway M Reconstruction	750,600		1,595,400	2,346,000
Water Main Loop Extension - 2200 North		200,000	953,000	1,153,000
ALP/Environmental Update - Phase II			160,000	160,000
Asphalt Overlay Program - Phase I		499,000		499,000
Landside Road Reconfiguration East		11,962,000	12,647,000	24,609,000
Purchase and Refurbish Loading Bridges			3,570,000	3,570,000
Subtotal Existing Projects	**32,434,600**	**14,065,000**	**45,129,400**	**$ 91,629,000**
Proposed New Projects				
Airport II Secondary Fuel Containment			156,000	$ 156,000
Airport II Hangar Development	1,200,000		666,000	1,866,000
Airport II Apron Rehabilitation	1,500,000		291,000	1,791,000
SLCIA General Aviation Taxiway Extension	679,700		752,300	1,432,000
Taxiway K Resurface and By-Pass	1,812,600		1,659,400	3,472,000
Taxiway Center Line Light Trench Pav. Recont.	906,300		285,700	1,192,000
Concourse Apron Rehabilitation	4,600,000		1,208,000	5,808,000
Environmental Analysis for Runway 16L/34R	1,500,000		100,000	1,600,000
Land Acquisition			518,000	518,000
Precision Obstacle Free Zone - T/W H1&H3	250,200		27,800	278,000
Protective Bollards - Terminal Fronts			298,000	298,000
Gates 10 & 16 Modifications			150,000	150,000
Terminal Front Signage Modifications			244,000	244,000
Apron Joint Seal Rehabilitation		600,000		
Subtotal New Projects	**12,448,800**	**600,000**	**6,356,200**	**$ 18,805,000**
Contingencies				
Economic Development Reserve		2,000,000		$ 2,000,000
CIP Committee Reserves		1,500,000		1,500,000
Totals - by funding category	**44,883,400**	**18,165,000**	**51,485,600**	
TOTAL CIP EXPENDITURES				**$ 113,934,000**

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 net revenues, revenue bonds, passenger facility charges and State and Federal 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.

SIX YEAR DEPARTMENT BUSINESS PLAN

- No additional employees or FTE are planned in the next six years.
- Ongoing capital improvement program (CIP) during the six year planning period averages about $48.5 million per year.
- Passenger loading bridges acquired in FY '05 will be upgraded.
- The landside elements of the Master Plan will be constructed over the next two years for approximately $60 million.

SALT LAKE CITY DEPARTMENT OF AIRPORTS

Council Transmittal

TO: Rocky J. Fluhart
Chief Administrative Officer

DATE: 1 April 2005

FROM: Tim L. Campbell, A.A.E. Jay Bingham for Tim Campbell
Executive Director

SUBJECT: Department of Airports Budget Request for FY 2005-2006

STAFF CONTACT: Jay C. Bingham
Director, Finance and Accounting
Department of Airports
(575-2530)

DOCUMENT TYPE: Budget Request

RECOMMENDATION:

We recommend that the FY 2005/2006 Budget Request of the Department of Airports be included in the City's FY 2005/2006 Budget document and approved with the City's Budget.

BUDGET IMPACT:

The Department of Airports' FY 06 operating revenues will increase by \$2,729,400 from projected FY 05 to \$90,547,800. The FY06 operating expenses will increase by \$4,757,200 over projected FY05 to \$75,288,800. No new employee positions are requested for FY06, keeping its full-time-equivalent positions at 575.8.

Capital expenditure for FY 06 is budgeted at \$117,610,000.

BACKGROUND AND DISCUSSION:

The Department of Airports is the city department that manages the Salt Lake City International Airport, Airport II, and the Tooele Valley Airport. The Department of Airports is an enterprise fund of the City and does not receive any general fund revenue or subsidy. The FY06 budget will allow the Department to continue providing excellent customer service, address safety and security, and provide the airlines with reasonable rates and charges. In addition, the capital expenditure budget will fund the continuation of the Airport's development projects.

PUBLIC PROCESS:

This budget request was reviewed and accepted by the airline representatives on March 2, 2005. The Airport's Advisory Board Finance Committee also reviewed this budget request in detail last March 9, 2005.