

To: Airport Commission

From: Airport Staff

Subject: **Santa Monica Airport Fiscal Year 2012/13 Budget Presentation**

Date: February 27, 2012

Discussion

The City of Santa Monica is in the process of reviewing the second year of its biennial budget. The City Council adopted the FY2011-13 biennial budget on June 21, 2011. This was the first two year budget ever adopted by the City. The new fiscal year will begin on July 1, 2012 and end on June 30, 2013. Following an extensive review process, the City Manager will determine if any exceptions will need to be considered to the approved budget and then submit any proposed changes to the FY12/13 budget to the City Council for review and adoption at a public hearing in June 2012.

The FY2012/13 budget for the Airport, as with all City departments, will remain effectively “flat” for expenditures and capital improvements. Additionally, FY2012/13 revenues are expected to continue to be “flat” due to only slightly improving vacancy rates on non-aviation property and minimal if any increases in operations. The estimated revenue for FY2012/13 is \$4,248,939. Historically, Airport revenues had risen every year until 2009. Those increases were primarily due to rises in rental rates (our standard minimum CPI of 3% and periodic appraisals) and high demand for non-aviation property.

The Airport, consistent with City-wide policies, began reducing its operating budget starting with the FY2009/10 budget, which was reduced by more than \$300,000 from the prior year. Smaller reductions occurred last fiscal year. Responsible fiscal planning required an effectively “flat” budget (increases basically for utilities and insurances) as part of the development of the FY2012/13 budget. This is particularly true this year in light of the lagging economic conditions of the state and region. The Airport operating expenditure budget for the current fiscal year (FY2011/12) is \$4,335,543 (\$3,571,934 for Airport Administration and Operations, and \$763,689 for Airport Maintenance). For FY2012/13, the expenditure budget is \$4,525,255 (\$3,731,207 for Airport Administration and Operations, and \$794,048 for Airport Maintenance).

The following is an overview of the City Council approved Airport budget for FY2012/13. The Airport Fund is an enterprise fund requiring the Airport budget to fully cover all operating expenses with any additional revenues remaining within the Airport Fund balance. The Airport fund is not permitted to go into a deficit situation. Revenues generated on the Airport may by law be used only for Airport purposes and are not transferred out of the fund for other purposes. In order to ensure a positive fund balance over the next four years, capital improvement allocations have been significantly reduced.

Revenues

Estimated Airport revenues for FY2012/13 were based upon revenues projected and adjusted for inflation and/or other factors such as escalator (CPI) clauses for specific leasehold properties, trends (i.e. projected increases or decreases in the number of tie downs, rentals, fees, and/or increasing vacancy rates), and other factors that might impact revenues.

Airport revenues are historically derived from the following sources:

- 75% from leases and rentals of facilities or land including facility rentals, (e.g. non-aviation and aviation commercial leases), studio and office rentals, hangar rentals, and land leases.
- 10 % from landing fees
- 4% from aircraft tie down rentals
- 4% from fuel flowage fees
- 3% from parking lot rentals and parking fees
- Less than 1% from film and event permit fees
- Less than 1% from noise fines
- Less than 1% from interest and bonds

The majority of Airport revenue is from rent. In the fall of 2008, the Airport experienced a decline in rental revenues due to a number of tenants leaving and growing periods of vacancies before replacement tenants can be secured. The rental revenue normally had grown each year with CPI increases for leases and market rate increases on new rentals. It is anticipated that FY2012/13 will be consistent with the previously approved budget.

Expenditures

Airport expenditures consist of personnel (salaries and wages), supplies and expenses, capital outlay, and capital improvement projects.

Personnel

The Airport Division is currently comprised of eleven full time positions, including four that operate through the Public Works Maintenance Division but are funded from the Airport Fund. The approved salaries and wages budget for FY2012/13 is \$1,448,332. This category includes salaries, medical coverage, retirement, uniform/tool allowance, and other limited fringe benefits. For FY2012/13, staff is recommending the addition of 1.0 full-time Administrative Analyst position, at a cost of \$110,055 annually, to replace the Airport Administrator position that was deleted from the Airport budget in January 2012. The Administrative Analyst position would be responsible for coordinating, preparing, and monitoring the Airport Fund budget, implementing environmental programs at the Airport, and performing other administrative duties. This change results in a salary savings of \$60,700 for FY2012/13.

Supplies and Expenses

The Airport's supplies and expenses budget for FY2012/13 is \$2,946,923. Expenditures from this category fund the day-to-day operation of the Airport and cover such things as security services, interdepartmental support services, debt service, noise management and operations programs, utilities, insurance, vehicle maintenance, custodial services, outreach activities, airfield, non-aviation properties and landscaping maintenance, tools and equipment, office supplies, property taxes, and other miscellaneous expenses. The vast majority of these items are fixed (billed by those departments) and are non-discretionary. Charges are set for City support services, police, utilities, and insurances.

Capital Outlay

The total capital outlay budget for FY12/13 is \$130,000. Expenditures in this category cover capital purchases, such as the acquisition of computer equipment, general building renovation and maintenance, emergency repairs, and miscellaneous equipment.

Total Airport Fund Budget

The total Airport Fund budget for FY2012/13 is \$8,774,194 (\$4,525,255 in expenditures and \$4,252,939 in revenues). In light of revenues and the general economic situation, restrictions in the current fiscal year reflect the need for conservative budgeting. This same City policy applied in the FY2012/13 budget.

The balance of revenue is required for capital improvements to maintain the safety and security of the Airport. This largely includes aviation surfaces (runway, taxiway, ramps, parking and access areas) and non-aviation surfaces (including parking lot and roadways) repairs and slurry. The Airport is required to maintain these surfaces and Airport infrastructure with Airport funds.

Capital Improvement Projects

Outside of routine maintenance and facility improvement projects that occur on a daily basis at the Airport, there is larger construction projects planned. These projects are referred to as Capital Improvement Projects (CIPs). CIPs are usually developed with the assistance of the City's Engineering or Architecture Services Divisions and then presented to the City Manager (and ultimately the City Council) for approval.

Capital improvement projects are defined as projects in excess of \$50,000, projects lasting more than three years, or projects involving Public Works construction. CIPs are reviewed and treated separately from other budget requests due the complexity of the project and the dollar amounts involved.

The following CIPs are approved for FY2011/12 and applications will be submitted for funding for the next two years, FY12/13 and FY13/14 to ensure project completion. The preliminary estimate for FY2012/13 is \$2.97M.

Airfield Pavement Rehabilitation

This is an on-going pavement maintenance program designed to ensure the safety and integrity of the asphalt pavement surfaces located in aircraft operating areas of the Airport. Failure to provide a regular program of localized repair and rehabilitation will result in water intrusion and the deterioration of the pavement surfaces. Each year a portion of the airside is inspected, repaired as necessary, rehabilitated and then re-stripped in accordance with FAA standards. This

year's project will rehabilitate and re-stripe approximately 480,000 square feet of aircraft parking areas, service road, helipad and crack seal and re-stripe the runway. Approximately \$107,000 for construction and \$169,000 for consulting services has been spent to provide specifications for the Airfield Pavement Rehabilitation, Gunitite Repairs, Sidewalk Repairs, and Parking Lot Pavement projects.

Estimated Project Cost: \$455,000

Airfield Lighting Repairs

This project improves operational safety and reliability of the airfield lighting system by replacing deteriorated airfield wiring that has exceeded its useful life. Approximately, \$25,000 has been spent on consulting services.

Estimated Project Cost: \$150,000

Airport Buildings Rehabilitation

This is a multiyear project designed to address structural and infrastructure deficiencies of non-aviation City-owned buildings on the south side of the Airport. This project will rehabilitate various electrical; plumbing; paint; roofs; bathrooms; fire alarm systems and provide funds for elevator modernization at the Airport Administration building. Approximately, \$38,000 in repairs has been completed and plans to expend an additional \$100,000 before the end of FY2011/12.

Estimated Project Cost: \$825,000

Gunitite Repair

Concrete gunitite was used in the 1940s to provide erosion protection for the hillside along the southwest portion of the Airport adjoining Airport Avenue. This project repairs approximately 37,000 square feet of deteriorated gunitite to maintain its structural integrity and preserve the stability of the hillside. FY2011/12 funds have not been spent.

Estimated Project Cost: \$325,000

Courtyard Offices Roof

There are approximately 9,100 sq. ft. of courtyard offices located in the Airport Administration Building which are situated under a roof structure that includes a turf area divided by a walkway. The roof structure currently leaks and damages the offices underneath. This project identifies the areas in need of repair and restores the integrity of the roof system. Approximately \$2,000

has been spent on consulting services.

Estimated Project Cost: \$480,000

Airport Avenue Sidewalk Repairs

Currently the sidewalks along Airport Avenue from Donald Douglas Loop South to 23rd Street are in desperate need of repairs. This project makes necessary repairs to provide for a safe pedestrian walkway. FY2011/12 funds have not been spent.

Estimated Project Cost: \$220,000

Parking Lot Pavement Rehabilitation

This is an on-going pavement maintenance program designed to ensure the safety and integrity of the Airport's common-use vehicle parking lots. These parking lots are used by airport tenants and visitors. Several of the parking lots deteriorated with raveling, cracking and depressions. This project will restore the parking lots and enhance public safety. This project also provides funds to explore the feasibility of creating a car storage parking lot in the undeveloped land located in the northeast corner of the Airport to be used for auto dealership inventory storage. Approximately \$84,000 has been spent on construction.

Estimated Project Cost: \$515,000

Recommendation

Staff requests that the Airport Commission review the Council approved FY2012/13 budget and provide comments prior to its submission to the City Manager. Staff will advise the Airport Commission over the course of the budget process of any significant changes to the budget.

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