File Code No. 120.03

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: April 28, 2015

TO: Finance Committee

FROM: Administration Division, Airport Department

SUBJECT: Airport Aircraft Rescue And Firefighting (ARFF) Budget Discussion

RECOMMENDATION:

That the Finance Committee hear a staff discussion on potential adjustments to the Fire Department staffing for Federal Aviation Administration required Aircraft Rescue and Firefighting (ARFF) services at the Airport.

EXECUTIVE SUMMARY:

In the last ten years the Airport has experienced a 26.2% decrease in passengers. In April of 2014 American Eagle pulled out as a key carrier; and one year later, in January 2015, Frontier Airlines left. The loss of these services and the attendant decline in passengers have significantly impacted the Airport's finances as they affect all airport revenues, including landing fees, terminal rents, parking, rental cars leases, and concessions. In addition, it results in a decline in Passenger Facility Charges (PFCs) and the "entitlement" portion of the FAA Airport Improvement Program (AIP) grant.

In response to the loss of American Eagle last year, the Airport acted quickly to re-balance its budget by reducing expenditures and enhancing revenues where possible. These steps resulted in cost savings and increased revenue of more than $1 million. Due to the recent loss of Frontier Airlines, the Airport has negotiated minor increases to fees which, combined with other cost cutting measures where possible, enabled the Airport to once again re-balance its operating budget. However, operating revenues will not be sufficient to fund the Airport's capital program, and will therefore require the use of reserves over the next three years. Airport capital needs range from $750,000 - $860,000 for over the next two fiscal years, including AIP grant match.

In light of unfavorable trends in the airline industry that began several years ago, and its impacts on the City's airport, in Fiscal Year 2014 the Airport and Fire Departments were directed to evaluate alternatives to providing Aircraft, Rescue and Fire Fighting (ARFF) services while maintaining Fire best practices.

The Study recognized the high standards of the Fire Department, but also stated that reducing the current level of service from three to two staff per shift would still be in compliance with FAA requirements. While reducing ARFF services is not the ideal situation, doing so would result in savings to the Airport of approximately $600,000 annually. Given the financial challenges facing the Airport, staff believes reducing services is the only remaining alternative.

DISCUSSION:

Background

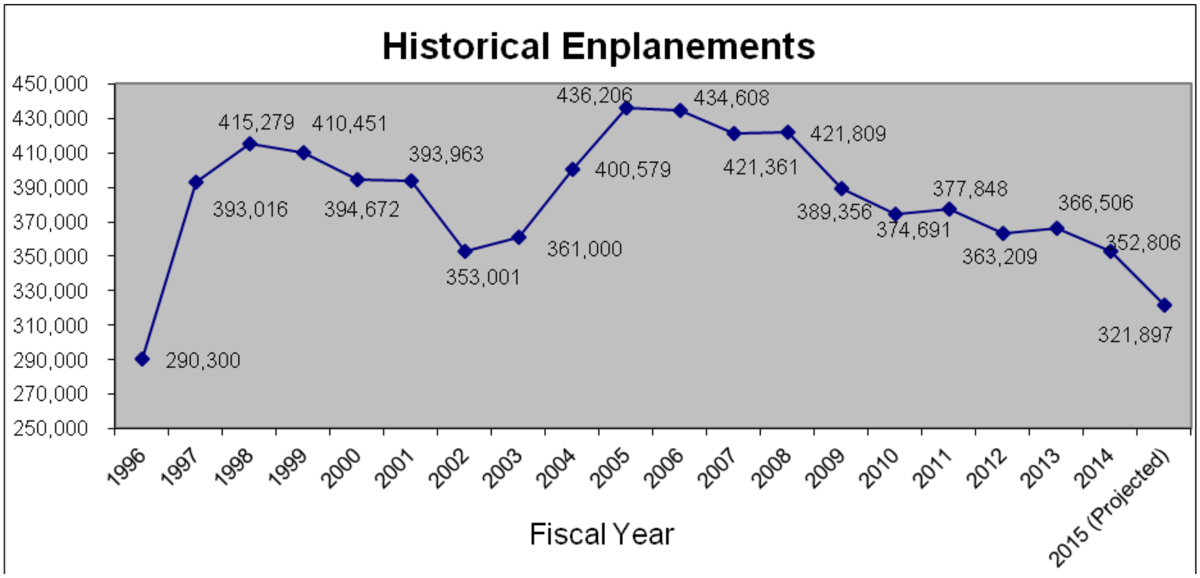
The Santa Barbara Airport is financially self-supporting through tenant rents and user fees. A number of changes in the airline industry within the last 10 years have led to significant declines in the number of passengers at the Airport. Additionally, the vacancy of two prime commercial properties, Woolever and the Elephant Bar, on the north side of Hollister Avenue during the last 18 months has contributed to the financial difficulties. Currently, the Airport has fully funded reserves; however, financial projections for the near future indicate a significant use of reserves to provide limited but critical capital expenditures.

Airline Industry Impacts

With airline merger activity in the last ten years, the airline industry has reduced overall seat capacity by 20%. While this reduction has impacted all airports, for Santa Barbara the impact has been a 26.2% decrease (see chart on page 3). Projections for enplaned passengers in Fiscal Year 2015 are the lowest since 1996.

The decline in passengers can be attributed to a number of trends in the airline industry, including:

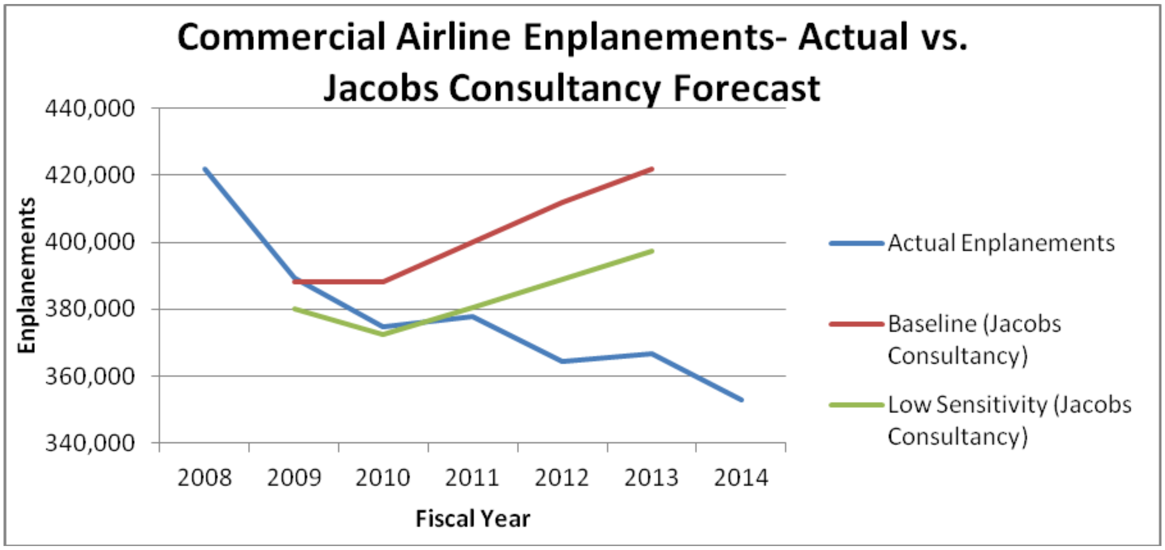
- Airline mergers
- General macroeconomic trends, including fuel prices
- Transition of regional airline fleets from 50- to 70-seat and greater sized aircraft
- Pilot shortages, especially for regional airlines, based on new FAA regulations
- Airline consolidation of flights at large hub airports and pulling flights away from small and medium hubs
- Near-range international expansion by low cost carriers



<u>Bond Debt Service Requirements</u>

Airport net revenues were pledged for the repayment of the 2009 Bonds that were used to finance the construction of the Airline Terminal. Based on the Airport's financial history as a self-supporting enterprise, it was anticipated that Airport operating revenues would be adequate to cover the annual principal and interest payments of $1,823,905 without any support from the City's General Fund. In addition, the bond documents contain certain covenants to the bondholders that "net revenues" would be 1.20 times the annual debt service on the bonds. The Airport is currently not meeting this debt service coverage requirement.

A financial feasibility study in April 2009 prepared by Jacobs Consultancy prior to the issuance of the 2009 Bonds and subsequent construction of the new Airline Terminal analyzed the effect of declining passengers. The City requested a sensitivity analysis to indicate potential financial difficulty with reduced passenger traffic. Actual enplanements in Fiscal Year 2013 were 7.8% below Jacobs Consultancy's "low sensitivity" projections and 13.2% below "baseline" projections (see chart below).



Notwithstanding declining revenue, debt service on the Airline Terminal bonds has been and will continue to be paid by the Airport and it is included in the Airport's budget. In the extremely unlikely event that the Airport was unable to make debt payments, the Airline Terminal bond is secured by the General Fund.

Airport Financial Outlook

Passenger declines are significant to the Airport budget because they affect all revenue lines of business at the airline terminal, including terminal rents, parking, rental cars, restaurant, and gift shop, as well as Passenger Facility Charges (PFCs) and the "entitlement" portion of the FAA Airport Improvement Program (AIP) grant.

The decline in passengers and airline services have created a structural challenge in that the costs of the airport terminal are largely fixed and were based on the expectation that airline service would be much higher. Consequently, costs associated with the building – debt service on the debt issued to finance the new terminal, maintenance and utilities – are relatively fixed. However, the Airport staff's ability to recover these costs from the existing airlines is difficult. Airlines are highly sensitive to fees and charges relative to competing airports. In fact, the full cost of the terminal is not being recovered, and is being subsidized by revenues generated in the commercial and industrial properties on the north side of Hollister Avenue, which are separate from the airport operations. Until the Airport is leased out to its full capacity, it will be difficult to recover the full cost of the terminal from airlines and other tenants through rents and landing fees.

Passenger declines in Fiscal Years 2014 and 2015 are related to the departures of American Eagle and Frontier Airlines, respectively. In Fiscal Year 2015 the Airport balanced its budget by reducing expenditures and enhancing revenues. Specifically, the Long-Term Parking Lot 2 was closed and the shuttle discontinued; fuel flowage fees for jet fuel were increased; and a new fuel flowage fee for commercial airlines was initiated along with an increase to airline rates and charges at the Airline Terminal.

These actions resulted in combined cost savings and increased revenue totaling more than $1 million. Reserves in the Airport Capital fund were used for the FAA AIP grant match, Streets Maintenance, and “Crash” Phone Replacement projects.

Fiscal Years 2016 and 2017 Budget

Based on current projections for Fiscal Years 2016 and 2017, the Airport Operating budget *excluding capital needs and FAA grant match*, is balanced. However, it does rely on proposed increases to airline terminal rent and landing fees, and by reducing costs where possible. These proposed increases have been negotiated and agreed to by the airlines. Certainly, Airport staff has to be sensitive to the fact that airlines operate on a thin profit margin and are sensitive to costs increases and how fees align with other airports.

Airport capital needs range from $750,000 - $860,000 for Fiscal Years 2016-2017, including AIP grant match. The capital needs include:

- Maintenance of commercial/industrial buildings, which the Airport has a contractual obligation to maintain. Most of these buildings were constructed during WWII and some require significant repairs, e.g. HVAC, roof, or plumbing and electrical replacement or repairs. These leased buildings generate approximately $4.5 million annually in rental income.
- Deteriorated parking lots at the Airline Terminal, car rental Quick Turnaround Facilty, or leased by Airport tenants.
- Airline Terminal maintenance.
- Mitigation, monitoring, and reporting for the Goleta Slough Tidal Restoration, a coastal development permit condition for the 2006-2007 Airfield Safety projects.
- Airfield Operations Area (AOA) pavement maintenance.
- AIP grant match. The Airport match for the AIP grant is 9.34%, or approximately $250,000-$315,000 per year. The AIP grant provides federal funding of approximately $2.7 million for essential safety and security needs with a favorable City matching requirement.

Santa Barbara Aircraft Rescue and Firefighting Services

The Fire Department has been providing ARFF services at the Airport since July 1, 1990 after the Airport Director transferred the service from Santa Barbara County Fire Department.

The ARFF Station 8, which was constructed in the early 1990’s, was jointly funded by FAA Airport Improvement Program grants and Airport Capital funds. The Airport provides the two ARFF apparatus which were purchased in 2002 with FAA Airport Improvement Program grant funds, as well as a smaller “Rescue Squad” unit. Station 8 also houses the City’s Mass Casualty unit which can provide EMS supplies and staging equipment for 100 patients. Additionally, the Airport pays for specialized equipment (silver suits), routine supplies, and services.

The Fire Department provides nine permanent positions - three Captains and six Engineers - to staff the ARFF station on a 24/7 basis. These personnel are trained and certified for airport firefighting (live fire drills), rescue, and EMS operations under both the FAA and City Fire Department requirements.

The FY 2015 ARFF staffing budget is $2,079,766 and support costs are $83,521 for a total program cost of $2,163,287.

FAA Regulatory Requirements and ARFF

To accept commercial air carrier service, an airport is required to obtain certification from the Federal Aviation Administration, per the Code of Federal Regulations (CFR) Title 14, Part 139. CFR Part 139 regulations include requirements for equipment, firefighting agents, and operational requirements such as personnel training and emergency response times.

ARFF services are divided into five indices, A through E, based upon aircraft length and average daily departures of air carrier aircraft (see Table 1 for a summary of FAA indices and requirements).

Scheduled airline service at SBA is currently Index B. The Airport has, however, historically published the higher ARFF Index C capability with FAA based upon its ability to fund Index C service.

In April 2015, the Airport will update the FAA reports and publish an Index B capability consistent with current airline operations. For the foreseeable future, scheduled airline service at SBA will consist of Index B aircraft.

Table 1- FAA Part 139.315 Airport Indexes and Firefighting Baseline Requirements

Measures by Index	Airport Index				
	A	B	C	D	E
Max Aircraft Length (ft.)	<90	90-125	126-158	159-199	>200
Typical Seating	86	170	280	400	592

Measures by Index	Airport Index				
	A	B	C	D	E
# of ARFF Units	1	1 or 2	2 or 3	3	3
Total FF Agents on Units	500 lb. Sodium Dry Chem or 450 lb. potassium Dry Chem & 100 gal. of H20 w/foam	Same as "A" with 1,500 gal. of H20 w/foam	Same as "A" with 3,000 gal. of H20 w/foam	Same as "A" with 4,000 gal. of H20 w/foam	Same as "A" + 6,000 gal. of H20 w/foam
ARFF Staffing	1	1	2	3	3

Source: Citygate Associates, LLC

Citygate Associates, LLC ARFF Study

In light of the trends in the airline industry, in Fiscal Year 2014 the Airport and Fire Departments were directed to investigate cost reductions for ARFF services while maintaining Fire best practices.

The Airport and Fire Department jointly funded a report prepared by Citygate Associates, LLC ("Citygate"). Citygate was retained to conduct a fire service review for the Airport. The study was commissioned "to understand the baseline Federal Aviation Administration (FAA) firefighting requirements for this class of airport, assess the current levels of fire service provided by the City Fire Department, and to understand current and likely future passenger aircraft operations." Citygate was also retained to identify a services plan that could strike a balance between best practices delivery of aviation firefighting services and the Airport's economic ability to provide differing levels of fire service (Citygate Executive Summary). The final report from Citygate was published in September 2014.

The Citygate Study (Study) found the City Fire Department meets or exceeds FAA requirements for training, communication programs, emergency planning, and interagency procedures. The ARFF apparatus given age and typical life span can be classified to be in fair to good condition. The Airport's Emergency Plan and the most recent FAA mandated disaster drill, and the current interagency procedures, meet best practices.

The Study determined the following:

The ARFF is staffed at all times (24/7) by one Fire Captain and two Fire Engineers, for a total of three positions. Per the Study, in order for the risks to be protected in Santa Barbara, the minimum daily ARFF staffing needs to be two (2) properly-trained and certified airport firefighters". However, the study also noted that, given the risks present and the premier status of Santa Barbara, it is not at all unreasonable, or out of the national norm, to staff the ARFF station with three personnel if the City can afford to do so.

While reducing services is not ideal, the Airport is in fact facing significant financial challenges and has limited options to materially change the current financial trajectory. Reducing security is not an option since the current levels are mandated by the Transportation Security Administration (TSA); reducing maintenance and/or custodial costs tied to the terminal would not be prudent given the terminal is brand new and maintaining it to appropriate standards is essential. Moreover, the maintenance costs are largely funded from the airlines through rents and fees. Finally, while pairing down administrative costs have been considered and implemented, where appropriate, the savings would not have a material impact on the financial picture.

The Study provided the following cost reduction options and estimated amounts, based on the Airport's budgetary needs:

1) Choose to have the City General Fund pay the third firefighter position because of the economic and tourism benefits generated by the Airport, saving the Airport $589,200.
2) Reduce the third firefighter position completely, saving the Airport $589,200.
3) Reduce the third firefighter position to core flying hours only, saving the Airport $383,734.

Based upon current airline schedules, Option #3 to staff during core flying hours is not feasible.

Implementing Option #2 through firefighter attrition, with the transition occurring by mid-year of Fiscal Year 2016, would reduce the use of Airport Policy Reserves and would meet the Study's findings while exceeding the FAA requirements. This option eliminates the need for General Fund subsidies to the Airport as described in Option #1, while allowing time for attrition in the Fire Department.

Long-Term Revenue Possibilities

Ampersand Aviation Hangar Lease

Ampersand Aviation LLC (Ampersand) leases approximately 22.97 acres of improved land from the Airport at 495 South Fairview Avenue. Previous tenants had constructed improvements including a standalone 30,000 square foot office building and four large hangar buildings totaling 214,000 square feet of building area (182,000 hangar and 32,000 office space) on the property.

On May 9, 2018, the Ampersand 50-year lease expires and the property, including improvements, return to the City/Airport. Continuing the leases of the hangar space with the existing tenants and change to the current 34% vacancy rate in the office building and mezzanine in the hangars, the Airport would receive additional revenues of approximately $205,000 in Fiscal Year 2018 (partial year) and $1.5 million in Fiscal Year 2019. This revenue projection does not include the cost for maintenance of the larger facility.

Commercial/Industrial Area Development

The Airport and Direct Relief entered into a Purchase and Sale Agreement dated October 9, 2014 for approximately 6 to 8.5 acres of property at 6100 Hollister Avenue. After the sale, undeveloped land remaining in the Specific Plan Area would accommodate approximately 110,000 square feet of building space. While the sales proceeds provides funds to develop properties and generate additional revenues long-term, in the short term the Airport will lose approximately $250,000 in lease revenues from the tenants occupying the parcels planned for sale to Direct Relief.

Proceeds from the sale estimated to be $8.7 million could be used to build approximately 25-30,000 square feet of phased development with occupancy beginning in September 2016. Building construction would occur upon execution of lease agreements for each space.

After completion and occupancy of the initial development, the Airport would receive $600,000 in rent in Fiscal Year 2019; the Airport proposes to split the revenue 50/50 between the Airport Operating Fund and a development fund. As such, the $300,000 allocated to the Operating Fund would offset the loss of lease revenue of approximately $250,000 as noted above. The portion allocated to the development fund would be used for phased development of the balance of the available land. Staff anticipates it would be up to five years to accumulate sufficient revenue to fund the second building.

In addition, the Airport has received an unsolicited proposal for lease of Airport property at 6200 Hollister Avenue at the corner where the Jeep Dealership used to be. The terms of a possible lease are currently in the early stages of the negotiation process, so no assumptions have been made nor revenue estimates included in the cash flow analysis.

<u>Summary</u>

Without some major change to the airline service, the Airport will not have sufficient revenues to cover operating and capital improvement needs for its facilities over the next several years. While adjusting ARFF staffing is a change to current practices at the Fire Department, it would result in savings to the Airport and exceed established FAA requirements.

The Airport will continually assess future needs to reinstate the third firefighter position based upon funding availability and/or changes in air service.

PREPARED BY: Hazel Johns, Airport Director

SUBMITTED BY: Hazel Johns, Airport Director

APPROVED BY: City Administrator's Office