

AGENDA ITEM NO. 7

SARASOTA MANATEE AIRPORT AUTHORITY
BUDGET WORKSHOP MINUTES
August 24, 2020 – 10:30 a.m.
Dan P. McClure Auditorium

Those Present:

Kristin Incrocci, Chairman
John Stafford, Vice Chairman
Secretary, Doug Holder
Commissioner Carlos Beruff
Commissioner Bob Spencer
Fredrick J. Piccolo, President, Chief Executive Officer
C. Dan Bailey, Jr., Airport Counsel
Mark Stuckey, Exec. VP, Chief of Staff
Kent Bontrager, Sr. VP, Engineering & Facilities
Anita Eldridge, Sr VP, Finance & Administration
Joseph Filippelli, Sr. VP, Real Estate Development & Properties
Evan Knighting, Sr. VP, Chief Information Officer
Karen Garofalo, Executive Assistant – SMAA

Those Absent:

Commissioner Peter A. Wish (via teleconference)

1. Call to Order.

Vice Chairman Stafford called the budget workshop meeting to order at 10:30 a.m.

PRESENTATION OF FY 2021 SMAA BUDGET (Agenda Item 2)

Mr. Piccolo presented the FY 2021 proposed budget and gave an overview of significant items through a PowerPoint presentation. He advised that this year's presentation is a little different given the circumstances of the past months with COVID 19 and future unknowns. He complimented his staff for doing a great job with their budgets by preparing two departmental expense budgets, one that would hold the line and the other for the possibility of absolute Draconian changes. We now see that we do not need to implement the severe changes and able to stay within our initial budget projections.

Mr. Piccolo reviewed the old rate-making methodology versus the new rate methodology, which is in its seventh year, with two years remaining on the agreements. From the PowerPoint, he pointed out significant revenue changes in FY 2021 including a decrease of \$3,421,864 in revenue contribution to airline rates. Projected net revenue for the FY 2020 budget was \$1,663,221, but that will not occur due to COVID 19. The airport utilized \$2,423,298 in CARES Fund in the FY 20 budget, with some credited back into the airline rate model, with some not qualified to go towards the rate model (i.e. marketing costs, etc., not covered under the airline agreement). As of July, our cash flow was slightly over \$17 Million.

He discussed major revenue changes in FY 2021. Total Airline revenue increases by \$589,000, mostly due to the airlines coming off the incentive programs. We project to see decreases in non-airline revenues (\$7.2 Million), RACs (\$3.1 Million), parking revenue (\$2.5 Million), non-aviation building revenues (\$88,000) and concessions advertising (\$537,158) in the FY 2021 projected budget. He noted that we always estimate revenues lower and expenses higher to ensure we have no shortfalls for the year. Total projected revenues are non-airline (\$6,959,907), airline revenues (\$8,272,200), operating & other (\$15,232,107), and \$3.1 Million in total CARES funds budgeted, with the projected deficit for FY 2021 at \$1,373,879. He explained reasons for not using additional CARES funds to lower the projected deficit.

Mr. Piccolo reviewed major expense changes to the budget with the overall operational expenses decreasing by \$198,352, utilities decrease 0.1%, personnel expense decrease by \$107,885, operations decreases 0.2%, with administration expenses increasing by 4.5%, and

capital equipment expenses decrease by 100% as there will be no major purchases this coming year.

Mr. Piccolo reviewed the Terminal Rental Rates and Landing Fees for Tampa and Southwest International compared to SRQ. Our terminal rental rates will decrease from \$63.38 to \$61.67; landing fees will decrease from \$0.63 to \$0.48, with the cost per enplaned passenger going up 6.9%, but we continue to have the lowest unit cost in landing fees and terminal rental rates than our major competing airports. He reviewed the revenue numbers and noted that the SRQ parking rates will remain unchanged and are lower or within \$1.00 of our competing airports.

Mr. Piccolo advised that our operating expense decreases by \$198,352. Under Personnel, Four full time and 5 part time positions have been eliminated, which remain below our 1990 position levels despite numerous lighting and pavement additions on the airfield, new technology for security and regulatory requirements from TSA and FAA. He stated we have major expense increases noted in seven areas: health insurance, retirement contribution, workers compensation, property insurance, liability insurance, legal costs, all of which are outside our control, with janitorial supplies increasing to accommodate the new cleaning protocols in place due to COVID 19. He noted that all of these increased items equal approximately \$650,000, therefore the overall expense decrease of \$198,352 (down by a combined \$848,00) was achieved by reductions in other areas. He feels that staff has done a great job to produce a decrease in the airport's operating expenses.

Mr. Piccolo discussed funding for the supplemental marketing Budget, which is not eligible in the airline rate base, with the funding coming from Interest Earnings, eliminating any revenue diversion with the airlines since the funding is outside the signatory agreements. We maintain great marketing partnerships with the CVBs' and local partners such as IMG, the Orioles, Pirates, Nathan Benderson Park, and a variety of cultural organizations.

Mr. Piccolo reviewed the major capital projects and stated we have a total of 19 projects of various sizes and scope included in the budget over \$13 Million, with 63% funded by state and federal grant monies. The major projects include apron construction in North Quad, terminal curbside renovations and the rental car office improvements. He reviewed some debt service challenges experienced by the surrounding area airports and noted we have \$17.7 Million of CARES funds remaining and approximately \$20 Million of unrestricted and restricted reserves with no debt, which will allow us tremendous coverage and flexibility to use the CARES funds strategically in the future. He plans to discuss with the airlines the possibility of extending the existing agreements to offer rate stability through the CARES Act.

Mr. Piccolo concluded the PowerPoint presentation and stated that the next step would be for the Board to approve at today's meeting, a Public Hearing for approval of the FY 2021 Budget at the September Regular Meeting. Staff will meet with the airlines on Tuesday to review and discuss the Budget and will keep the Board informed. He does not expect any issues and believes this is an outstanding budget to offer. The Airport is in a great financial position going forward and continues to be fiscally conservative.

Following a question from Commissioner Beruff, Mr. Piccolo answered questions on the CARES Act funds and advised that the funds can be used for any lawful purpose, whether for reimbursement of expenses or projects and will be used totally by the airport for those purposes. Commissioner Beruff felt that we should advance the planning and expansion of our terminal as soon as possible. He stated that the housing industry is experiencing a huge boon in the state, with Sarasota Bradenton being one of the most desirable places in Florida, and SRQ will be greatly impacted by that growth. We should start moving ahead with the paperwork for the

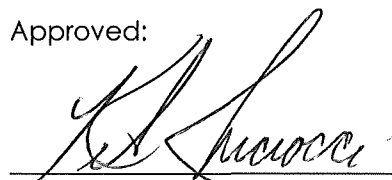
expansion to move forward. Mr. Piccolo advised that next month we have the briefing on the Master Plan Update that will address options to prepare for growth in the terminal. Mr. Bontrager included that the cost options and alternatives will be reviewed at that meeting.

Commissioner Spencer requested additional information on the seven major expense areas that increased as noted earlier in the meeting. Mr. Piccolo stated that health insurance increased 4.1%, retirement contributions are up 13%, workers compensation costs increase 6.9%, property insurance increased 34%, and general liability insurance increased 20%. Legal costs related to the ongoing taxi litigation increased and lastly the largest increase was in janitorial supplies necessary to accommodate the new cleaning protocols in place due to COVID 19. Commissioner Stafford suggested that it would be helpful to do a six-month budget review because of the uncertainty of budgeting in current conditions. Mr. Piccolo agreed and felt the airlines may request the same, possibly reducing rates if all goes better than anticipated and we do well from a budgetary standpoint. He noted that the airlines will receive a total of \$250,000 between all four carriers in reconciliation payments and discussed possible future negotiations with the airlines. Mr. Stuckey answered questions on the airline destinations noting there are currently 36 non-stop destinations from SRQ, with our airlines returning flights within the next few months. Allegiant will bring back Allentown, Flint and Ft. Wayne, Delta adding a fifth flight to Atlanta, United adding another flight to Newark, and in October Allegiant brings back Des Moines, Rockford, and Nashville. Jet Blue returns service to JFK, Boston and Newark, and United brings back Washington Dulles. Delta will restart LGA service and American brings back Philadelphia. Air Canada currently is scheduled to resume service to Toronto in October. There was discussion on the percentages of actual seats being brought back, which is difficult to determine with the current variation of load factors by different airlines. Mr. Piccolo noted that the signatory airlines costs decrease by \$350,000 in this budget, with airline revenues increasing by \$600,000 due to expiration of the incentive programs. Looking at the rates and rate sheet for non-signatory carriers, he noted their fees decrease 24% and gate fees reduce from 8% to 24% depending on aircraft size. Additionally, he stated that due to the pandemic, which had a severe effect on financials, he may request the Board to allow use of 2019 figures to continue the employee incentive programs for the year.

Vice Chairman Stafford congratulated Mr. Piccolo and staff on a great job preparing the budget. He asked if there were further questions on the Budget from the Board. There were no further questions. The meeting was adjourned.

The meeting adjourned at 11:18 a.m.

Approved:



Kristin Incrocci, Chairman

Attest:



Doug Holder, Secretary