

Memorandum



CITY OF DALLAS

DATE February 12, 2016

TO Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT Department of Aviation: Budget Overview

On February 16, 2016 the Budget, Finance and Audit Committee will be briefed on the Department of Aviation: Budget Overview. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink, reading "Ryan S. Evans".

Ryan S. Evans
First Assistant City Manager

Attachment

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Rosa A. Rios, City Secretary
Craig D. Kinton, City Auditor
Daniel F. Solis, Administrative Judge
Jill A. Jordan, P.E., Assistant City Manager

Joey Zapata, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Mark McDaniel, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager



Department of Aviation Budget Overview

Budget, Finance & Audit Committee Briefing

February 16, 2016



LOVE|EVOLUTION

Purpose

- Give Overview of Adopted FY16 Aviation Fund Budget
- Provide background Department of Aviation budget rate setting methodology
- Highlight impacts of Wright Amendment Repeal
- Review budgetary trends
- Provide a update on concessions performance
- Discuss future challenges

Overview of FY 2016 Budget



Overview of Aviation FY16 Adopted Operating Budget

FY16 OVERALL

OPERATING BUDGET

Adopted

FY16 Adopted Expenditure Budget	\$	93,875,967
FY16 Adopted Revenue Budget	\$	93,875,967
Excess/(Shortfall) (Any variance will be adjusted by Capital Transfer)	\$	-

FY16 OPERATING BUDGET SERVICES

A). Love Field	\$	61,495,791
B). Capital Construction & Debt Services	\$	27,321,891
C). General Aviation Facilities	\$	5,058,285
	\$	93,875,967

- \$12.8M Debt Service Payment to Southwest Airlines
- \$12.3M Capital Construction Transfer
- Revenues Increased from \$86.5M to \$93.88M, or 8.5%, primarily due to an increase in Parking and Terminal Concessions, which is a direct result of the increase in Passenger Traffic

Capital Construction and Debt Service Major Budget Items and Variance

- **FY16 Adopted** **\$27,321,891**
 - **\$27.09M Services:** Includes \$12.8M Debt Service Reimbursement to Southwest Airlines, \$12.3M Capital Construction Transfer, and \$1.6M Administrative Overhead
- **FY15 Budget** **\$28,887,818**
- **FY16 Adopted** **\$27,321,891**
- **Variance** **(\$1,565,927) ***

*The variance is primarily attributable to a reduction in Capital Construction Transfers in the amount of \$1,263,504

AVI FY16 Adopted Revenue Breakdown

Revenue Categories	FY 2014-15 Budget	FY 2015-16 Adopted	Variance	%	Explanation
Parking	\$24,283,448	\$26,861,524	\$2,578,076	11%	11% increase due to 15% increased passengers
Terminal Concessions	\$18,542,718	\$23,004,419	\$4,461,701	24%	24% increase due to 15% increased passengers
Landing Fees	\$17,784,135	\$17,784,135	\$0	0%	Rolled over pending FY16 Rates and Charges
Rental on Airport - Terminal	\$13,831,063	\$13,831,063	\$0	0%	Rolled over pending FY16 Rates and Charges
Rental on Airport - Field	\$8,864,148	\$9,067,220	\$203,072	2%	2% increase per Lease Schedule
Fuel Flow Fees	\$1,235,631	\$1,225,397	(\$10,234)	-1%	1% decrease per anticipated declining GA at Love Field
All Other Revenues	\$2,003,641	\$2,102,210	\$98,569	5%	5% increase primarily Customs Building Use Fees
Total	\$86,544,784	\$93,875,967	\$7,331,184	8%	

FY16 Position and Equipment Requests

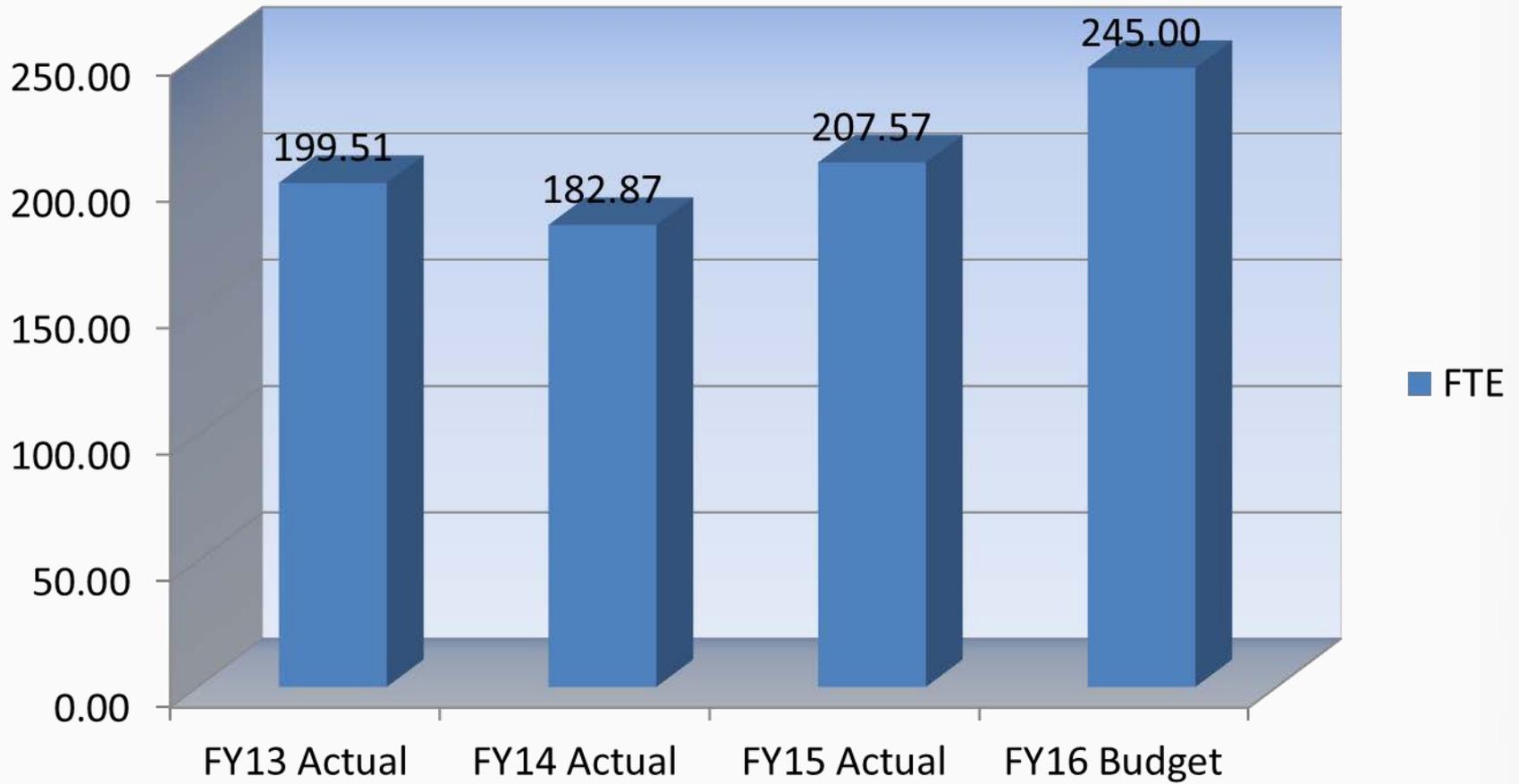
NEW POSITION REQUESTS

Admin (Distributed)	\$	-
Love Field - Six (6) Positions		
- Coordinator II		
- Environmental Specialist III (2)		
- Coordinator IV		
- Customer Service Rep II (2)	\$	370,792
General Aviation - Zero (0) Positions	\$	-
Debt Service & Capital - Zero (0) Positions	\$	-
TOTAL	\$	370,792

EQUIPMENT REQUESTS

Love Field	\$	1,847,500
General Aviation	\$	280,000
Debt Service & Capital	\$	-
TOTAL	\$	2,127,500

Aviation FTEs



Aviation Rates and Charges Methodology



Purpose of the Rates & Charges (R&C) Model

- Airline rates and charges are set such that revenues are adequate to cover annual expenses
- Ensure Revenues can adjust with Expenses as they fluctuate
- Maintain compliance with FAA Revenue Policy & maintain Reserve Funds

Background Info for Rates & Charges

- Under the old financial structure, the Rates & Charges collected from the airlines were not correlated to the actual cost of operating the airport.
- The Wright Amendment Repeal increased air travel from DAL, beginning 10/2014.
- DAL & SWA agreed to modernize DAL and entered into:
 - Program Development Agreement outlining the terms of the Love Field Modernization Program (LFMP)
 - Set out new Rates and Charges methodology

Rates & Charges Methodology

- A. The R&C methodology was agreed upon for the following:
- Fund LFMP Debt Service
 - Fund Capital projects
 - Use an empirical method to meet all operating costs
- B. Provisions of the R&C methodology are governed by the Airport Use & Lease Agreement between COD & SWA signed on June 25, 2008.

Rates & Charges Methodology

Contemporary R&C Methodologies:

1. Compensatory

- Airlines pay for their share of the portion of the facilities they use in the terminal (rental) and airfield (landed weights)
- Airport pays for the remaining expenses for operations
- The airport bears the FINANCIAL RISKS

2. Residual

- Airlines pay for expenses not covered by non-airline revenues (the “residual” amount).
- Airlines receive credits for non-airline revenues
- Airlines pay for any remaining costs, including debt service

3. Hybrid Methodology

- Hybrid methodology combines elements of the Compensatory and Residual methodologies

DAL Rates & Charges

The DAL R&C Model/Methodology

- The Department of Aviation uses the Residual Methodology.
- The DAL model is called **Cost Center Residual Model**.

AVI Total Annual Cost (allocated to airline cost centers)
-Non-Airline Revenues (from those cost centers)
= Airline Revenue Requirement
(from landing fees & rentals)

DAL Rates & Charges

Costs are allocated to the following cost centers:

- Airfield & Apron Area
- Terminal Building
- Other Building and Areas
- Parking and Ground Transportation
- Terminal Roadways
- Dallas Executive Airport & Vertiport

DAL Rates & Charges

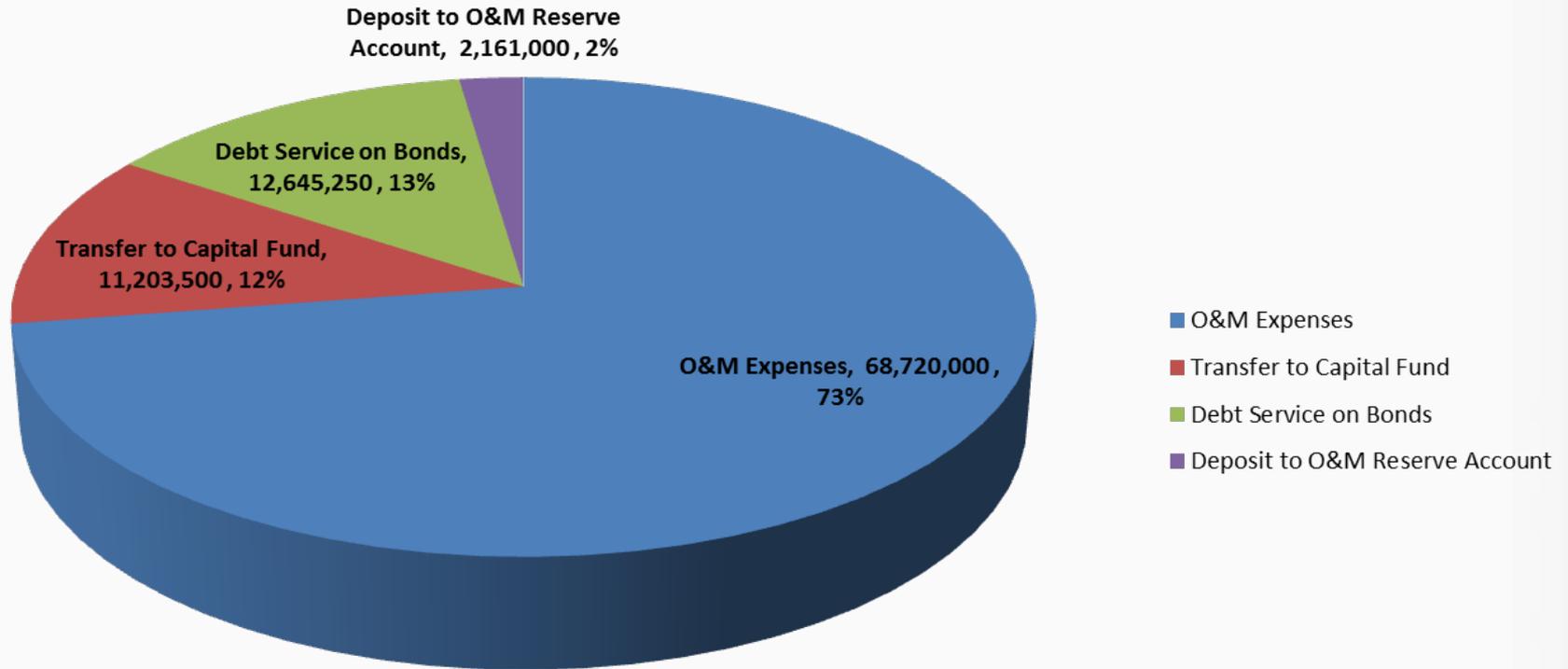
Costs Included in Airline Requirement for each Cost Center:

- Direct and Indirect Operation & Maintenance (O&M) expenses
- Debt service on Bonds
- Amortization charges (for capital costs paid with Airport funds)
- Deposits to certain reserve funds (to be explained later)

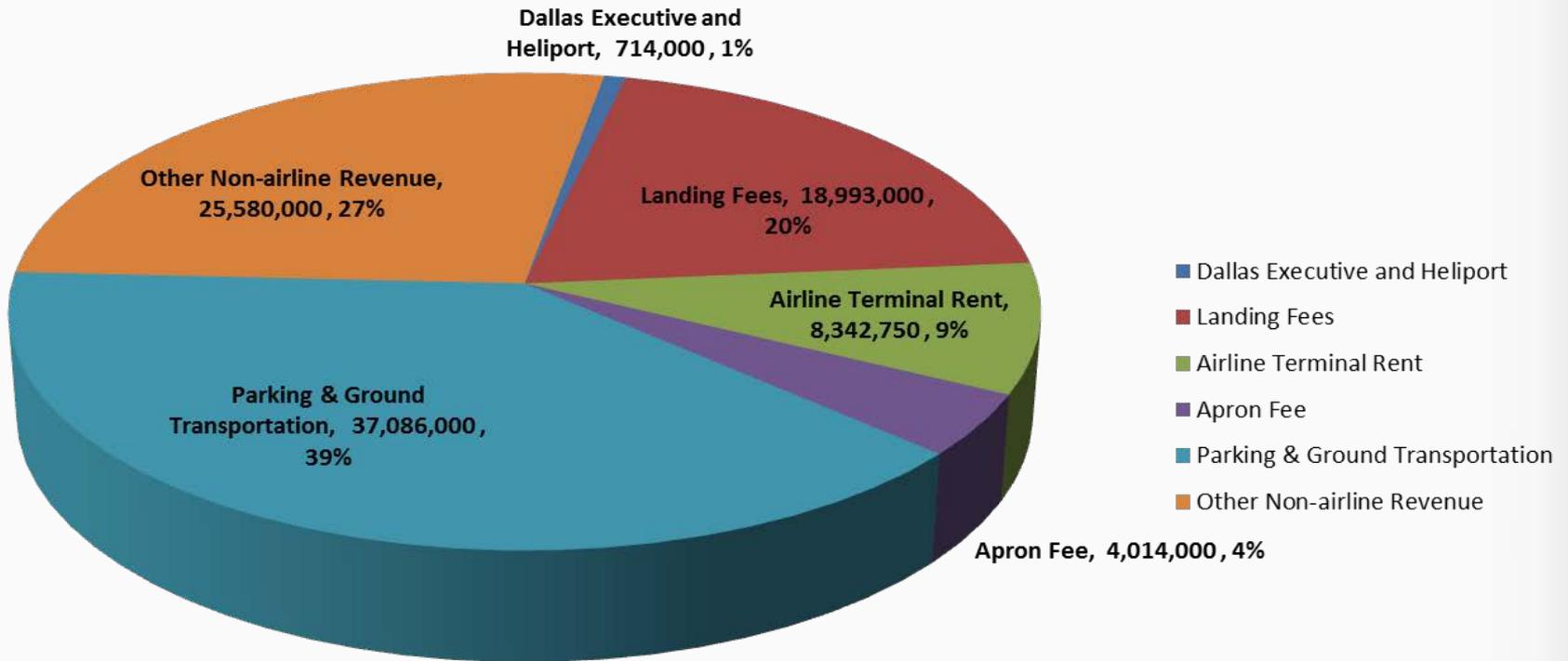
Credits to Airline Requirements:

- Terminal: 75% of Terminal concessions revenue and 100% of non-airline Terminal space rents
- Airfield: 100% of non-airline Airfield revenues
- Apron: 100% of non-airline Apron revenue
- 75% of Parking and Ground Transportation net revenues are credited to Terminal and Airfield requirements

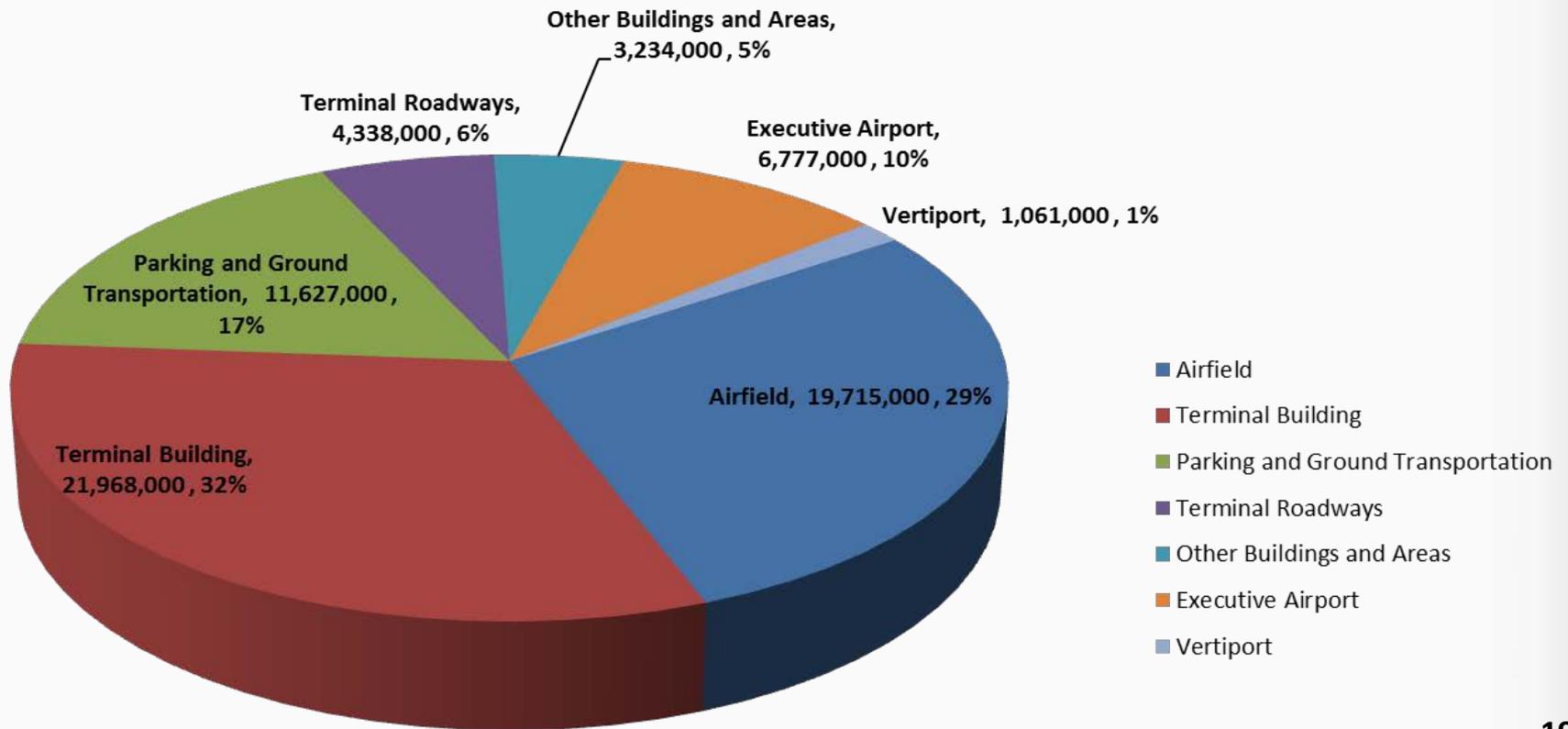
Projected FY 2016 Sources of Revenue



Projected FY 2016 Application of Revenues



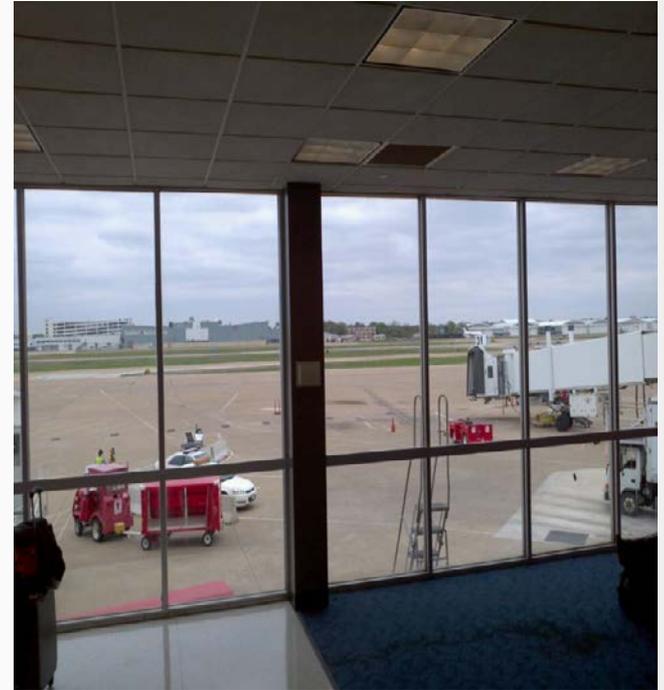
Projected FY 2016 O & M expenses by Cost Center



DAL Rates & Charges

Non-Airline Revenue Sources:

- Fuel Flowage Fee
- Lease Rental Rates
- Parking Rates
- Car Rental Concessions
- Ground Transportation Fees
- Terminal Concessions



Reserve Funds

Operating Reserve

- 90 days of O&M expenses (25% of annual budget)
- Replenishment by future Net Revenues

Emergency Repair & Replacement Reserve

- Repair & Replacement of structures/equipment etc., failures or damaged by an act of God
- Replenished by airline rate base

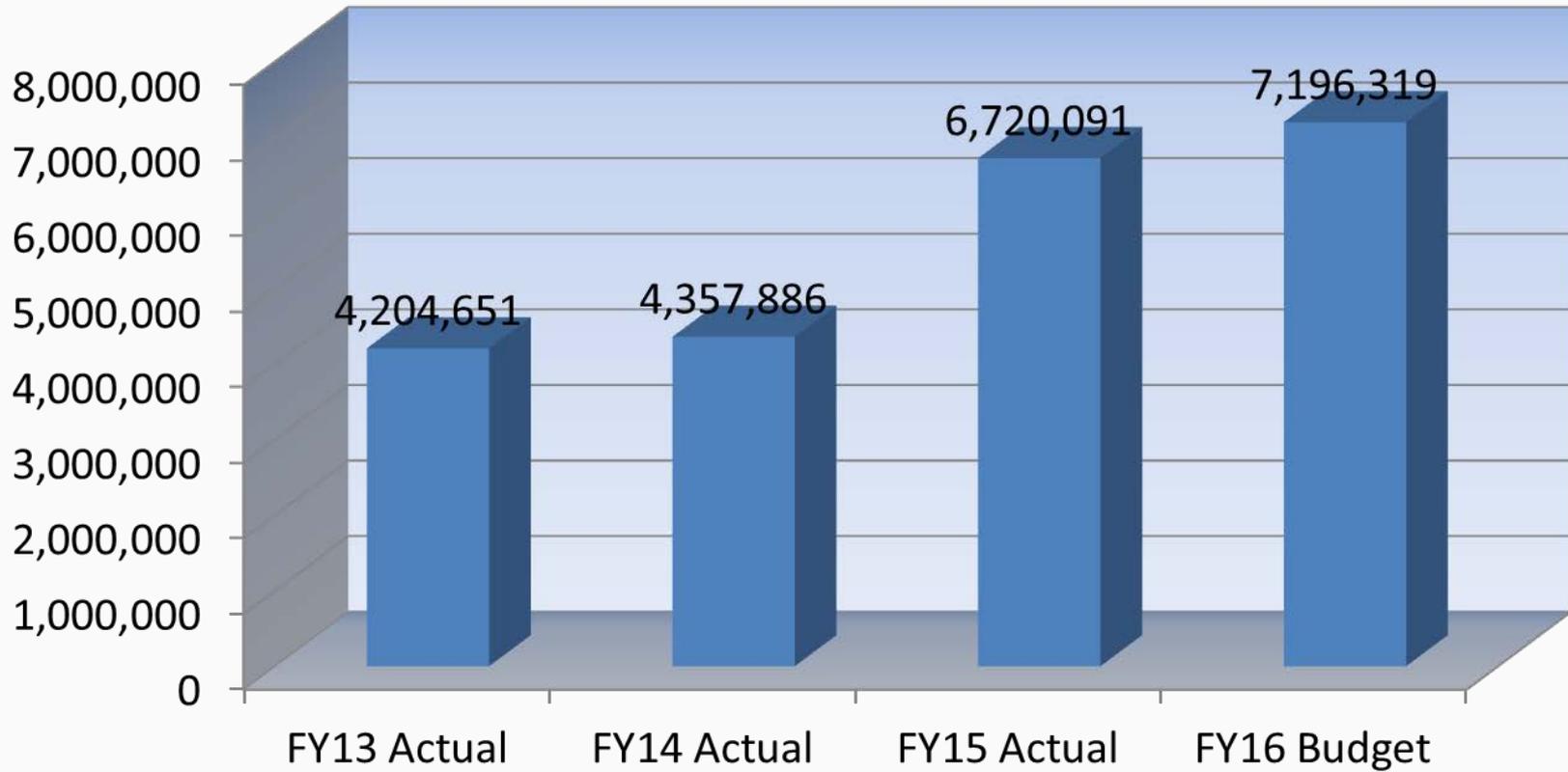
Contingency Reserve

- To guard against effects of long –term industry disruptions

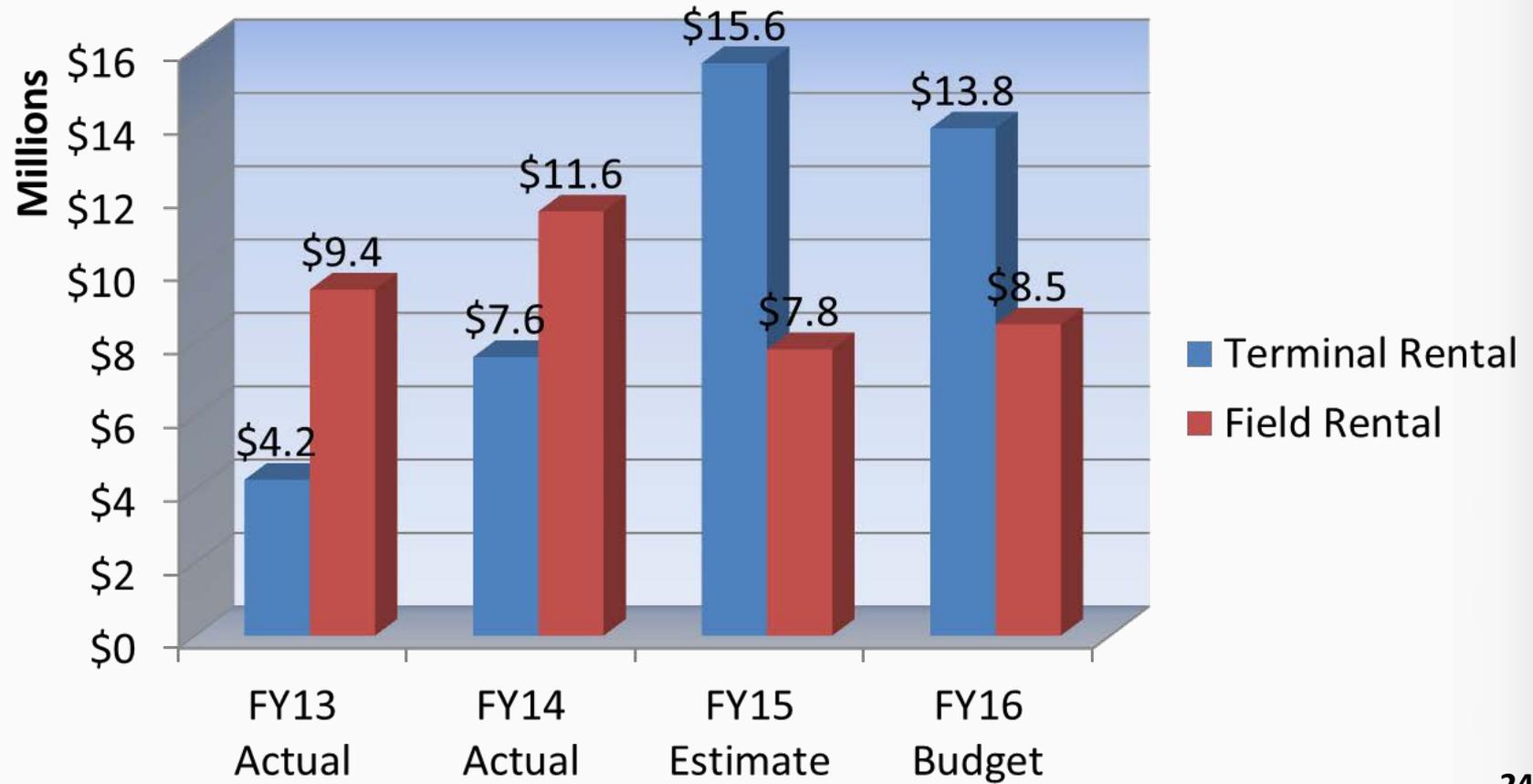
Trends at Dallas Love



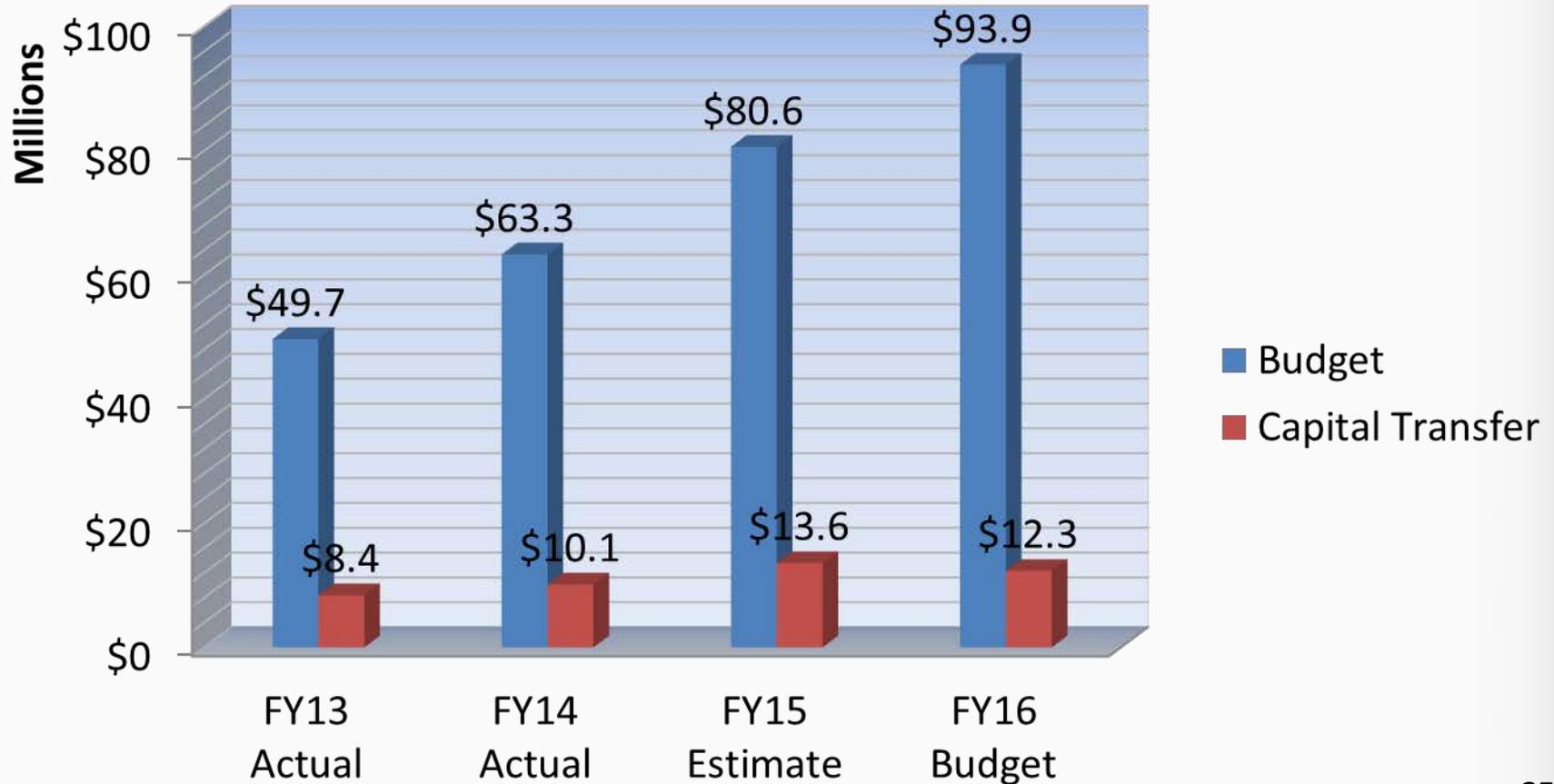
DAL Enplanements



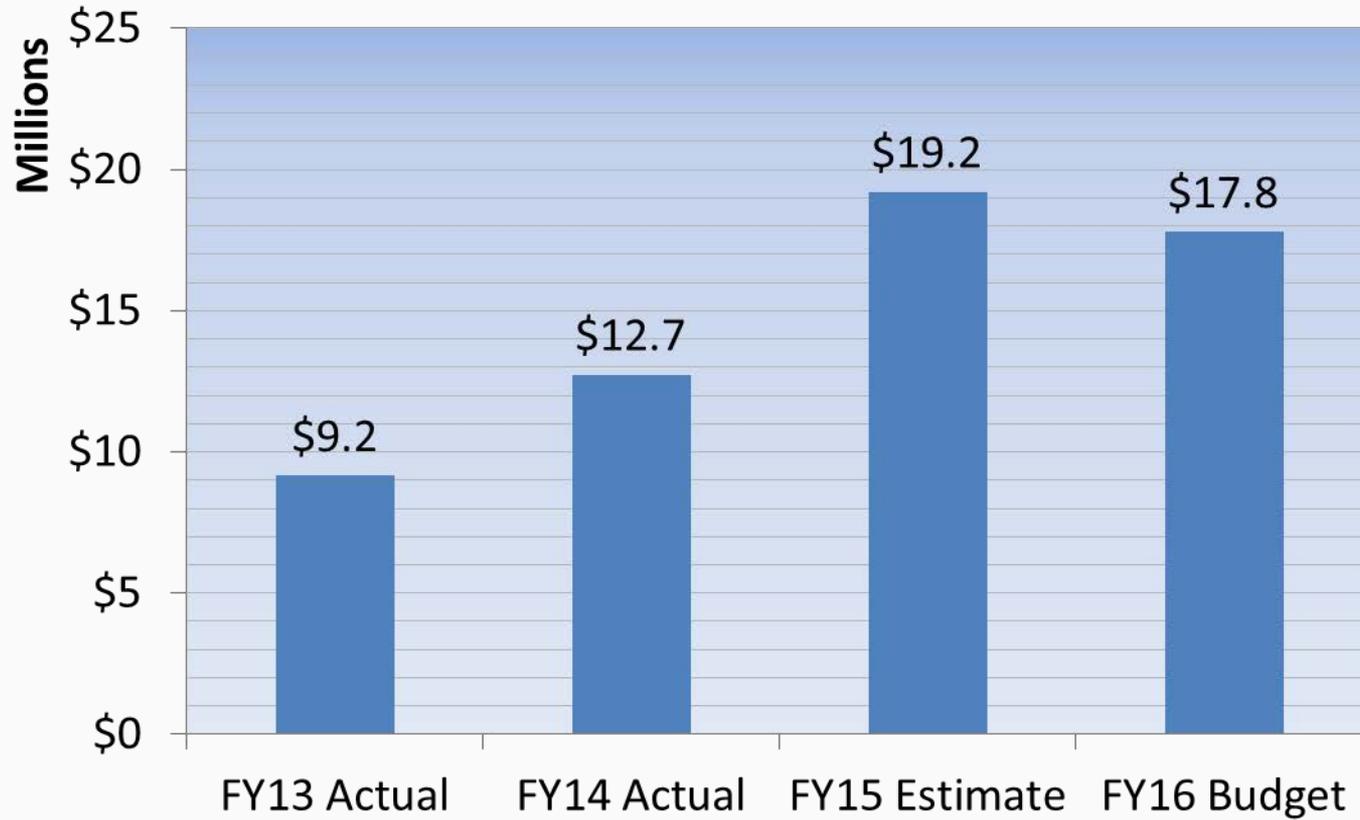
Rental Revenue



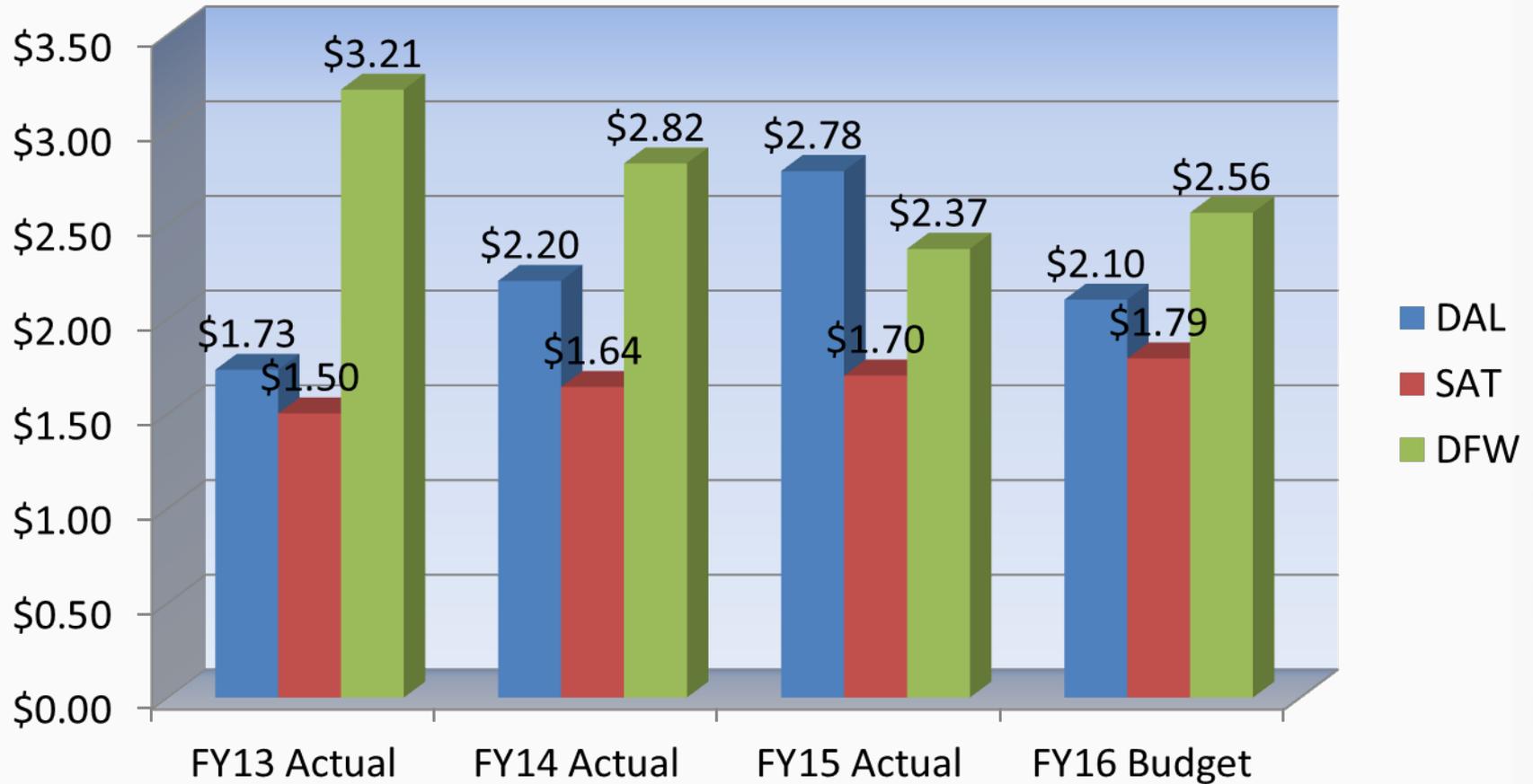
Budget vs Capital Transfer



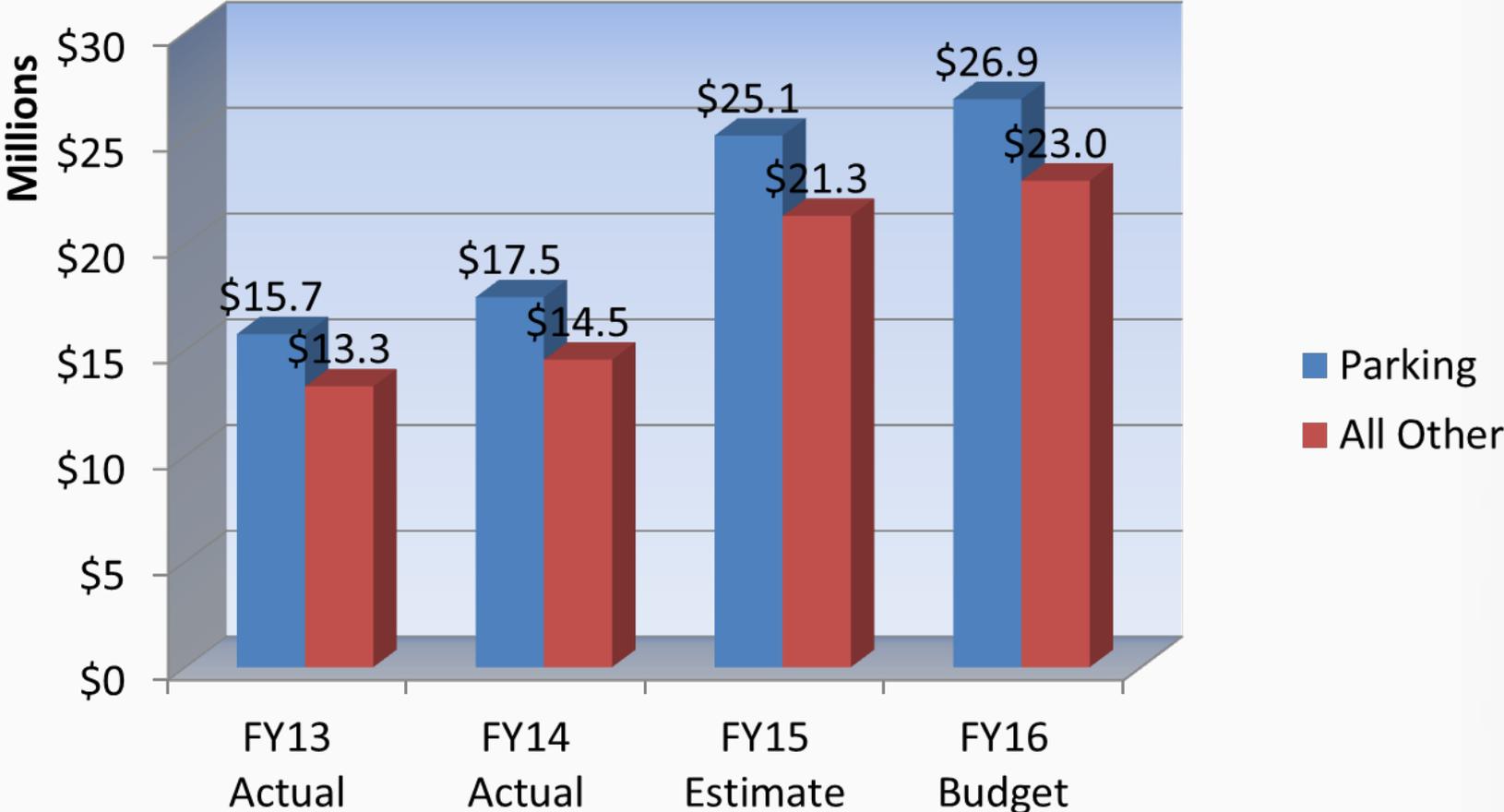
Landing Fee Revenue



Landing Fee Rate

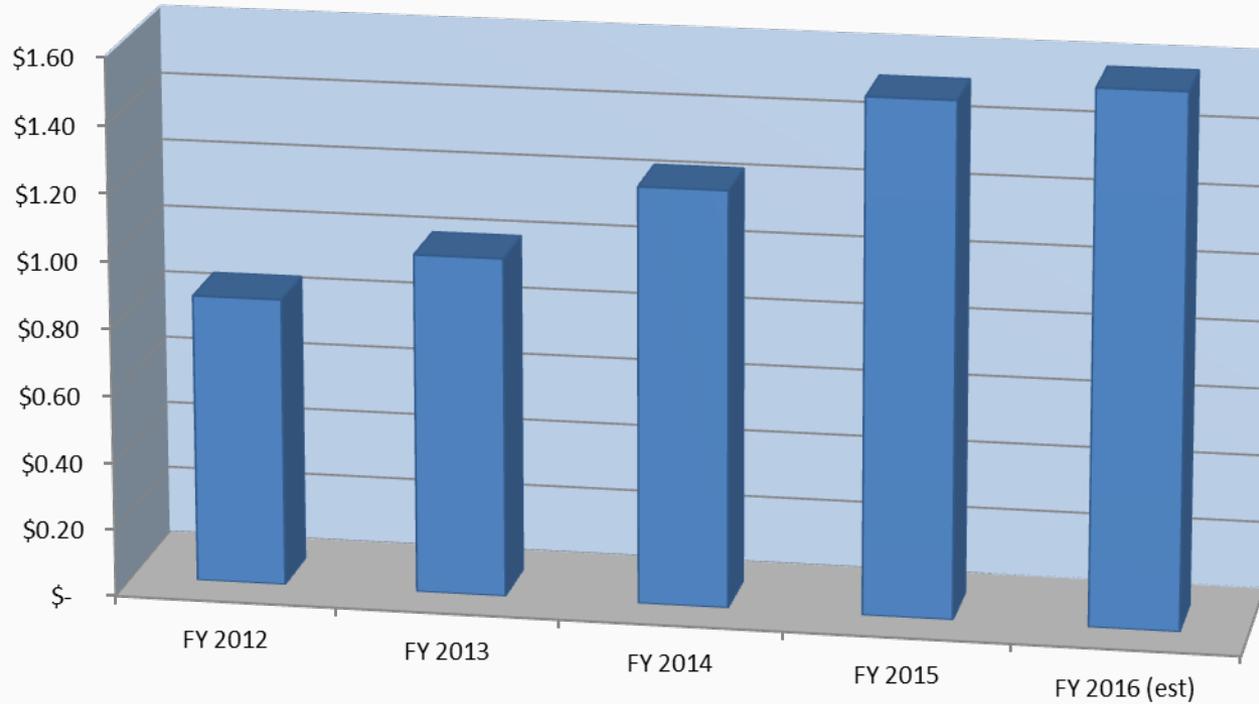


Concessions Revenue



Concessions Revenue

Revenue per Enplaned Passenger



Challenges

- Impacts of full flight schedules began in August not yet known
- Upgrades to baggage handling system will need to be completed to handle increased demand
- Disruptions to traveling public during construction projects:
 - New garage C
 - Water and wastewater replacements
 - Herb Kelleher roadway repairs

