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Technical Memorandum

To: **Kevin Smith**, General Manager
Kelly Woo, Finance Director

From: Catherine Hansford **Date:** October 11, 2019

Subject: **TTAD Budget Forecast Update with Alternative Forecast**

Purpose

This memorandum presents the revenue and expenditures forecast for the next five fiscal years for the Truckee Tahoe Airport District (TTAD). The TTAD's fiscal year runs from January through December; therefore, the projection is through December 2024. The projection includes the 2020 budget for Year 1.

Budget Forecast

Table 1 summarizes the base projection of the five-year budget forecast, which is built on the 2020 budget for Year 1 (including expansion of the administrative building phase 1 and ADSB). The base projection also includes completion of administrative building phase 2 in 2021 and construction of Hangar 2 (site work only) and the Super T's Hangar Row in fiscal years 2021, 2022, and 2023.

The District is projected to end fiscal year 2019 with a cash balance of $8.21 million (shown as the beginning balance for 2020 in **Table 1** on the next page), and is estimated to end fiscal year 2020 with a cash balance of $4.83 million. This balance represents a maximum exposure of financial spending. The District typically out performs this number. If all of the major CIP projects were to be completed in the next five years, the District would have a negative cash balance in Years 3 through 5; therefore, alternative major CIP scenarios were run, including these:

- Base Projection – All Projects
- Alternative A – No Hangar 2 (site work only)
- Alternative B – No Super Ts Hangar Row
- Alternative C – No Hangar 2 (site work only) AND No Super T's Hangar Row

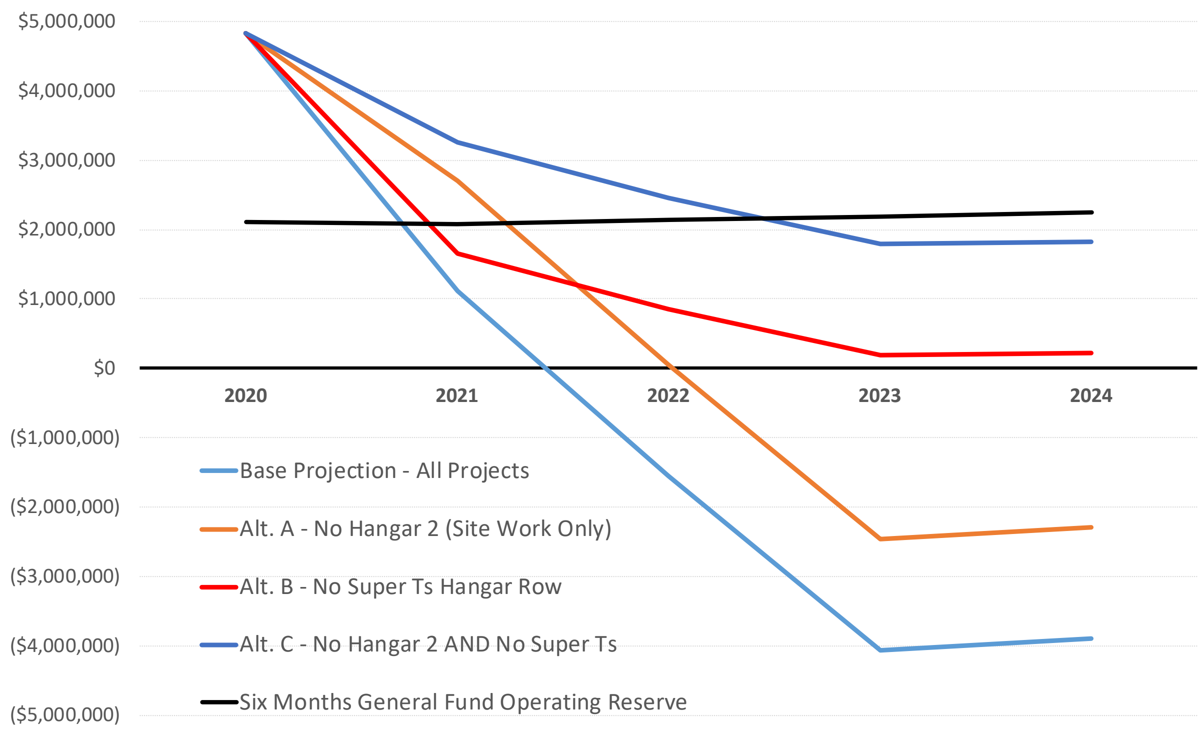
Finding: *It is projected that the District could only achieve cash balances greater than six months of general fund operating revenues each year if phase 2 of the administration building was not constructed under Alternative C (no Hangar 2 and no Super T's Hangar Row).*

Table 1
Five-Year Budget Forecast Summary

Revenues and Expenses	Fiscal Year (January - December) 2020	2021	2022	2023	2024
Revenues					
Operating Revenue	$6,691,281	$6,874,742	$7,063,404	$7,257,418	$7,586,940
Non-Operating Revenues	$12,628,628	$8,722,976	$13,237,525	$13,519,479	$9,176,177
Total Revenues	**$19,319,908**	**$15,597,718**	**$20,300,929**	**$20,776,896**	**$16,763,117**
Expenses					
Operating Expenses	$11,461,211	$11,886,158	$12,292,862	$12,548,300	$13,074,607
Non-Operating Expenses	$9,489,297	$4,085,509	$8,815,161	$8,891,460	$3,522,691
Total Expenses	**$20,950,508**	**$15,971,667**	**$21,108,024**	**$21,439,760**	**$16,597,298**
Net Income	**($1,630,600)**	**($373,949)**	**($807,094)**	**($662,864)**	**$165,820**
Beginning Cash Balance	$8,212,101	$4,831,502	$1,107,553	($1,549,541)	($4,062,405)
Net Income	($1,630,600)	($373,949)	($807,094)	($662,864)	$165,820
Non-Grant Funded Major CIP	($1,750,000)	($3,350,000)	($1,850,000)	($1,850,000)	$0
Estimated Ending Cash Balance	**$4,831,502**	**$1,107,553**	**($1,549,541)**	**($4,062,405)**	**($3,896,586)**

Figure 1 on the next page shows the results of the alternative scenarios. Under all scenarios the District's cash balance is estimated to fall below six months of General Fund operating revenues by Year 4. Under the base projection and Alternative A projection the District would have a negative cash balance by Year 3.

Figure 1
Projected Cash Balances under Major CIP Scenarios



Alternative Five-Year Forecast

An alternative five-year forecast was also prepared. The alternative forecast differs from the budget forecast because it models future expenses for agency partnerships, service contracts and funding agreements on historical average annual expenditures. All other expenditures and revenue projections, including sponsorships, remain the same as under the budget forecast.

The District gathered actual expenses for the last four years (2015 through 2018) and eight months of fiscal year 2019. On average, the District spent $660,000 per year on these expenditure categories, as shown in **Table 2** on the next page.

Table 2
Historical Community Sponsorships and Partnerships Expenditures

Category	**Avg. Annual Expenditures**
	(rounded)
Agency Partnerships	$500,000
Service Contracts & Funding Agreements [1]	$160,000
TOTAL	**$660,000**

[1] Excludes airshow.

Cumulatively, over the next five years, the budget forecast estimates spending of $7.47 million on these categories. Under the alternative forecast, only $3.50 million is spent. The alternative forecast is provided to give a range of potential cash balances over the next five years if the amount spent on community partnerships is about the same as it has been historically, rather than the amount that is budgeted.

Table 3 below summarizes the alternative forecast under the base scenario so that it is directly comparable to **Table 1.** Under the alternative forecast, the ending cash balances each year are improved because less is spent on community partnerships than is budgeted.

Table 3
Five-Year Alternative Forecast Summary

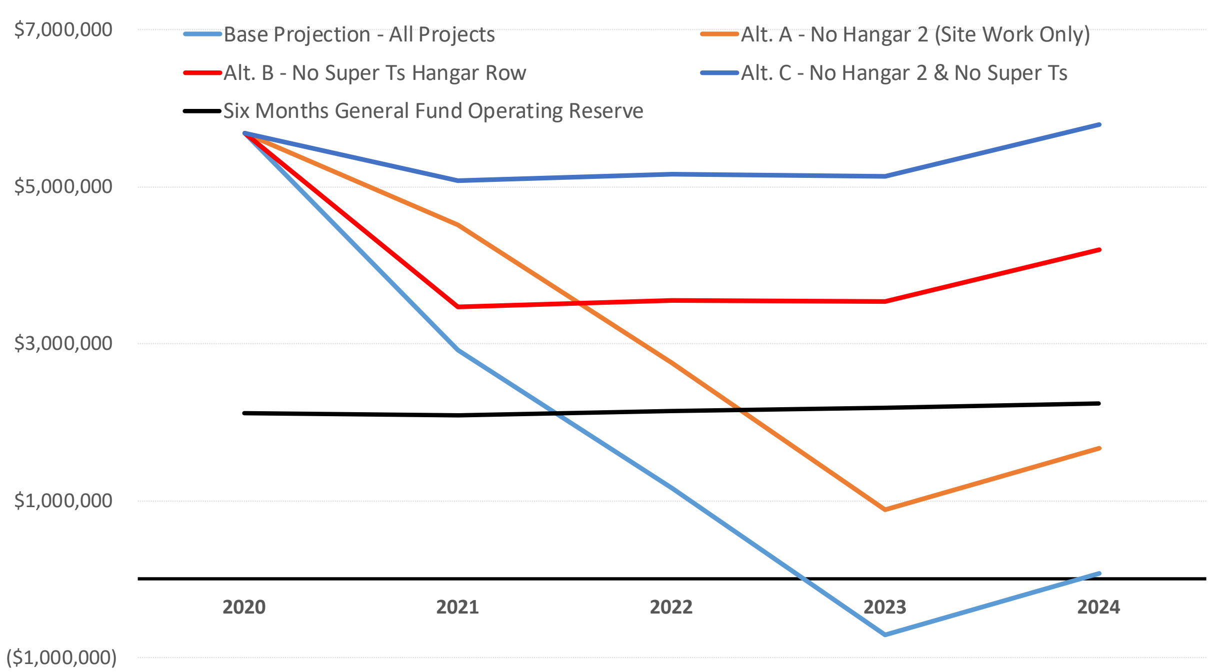
Revenues and Expenses	**Fiscal Year (January - December)**				
	2020	**2021**	**2022**	**2023**	**2024**
Revenues					
Operating Revenue	$6,691,281	$6,874,742	$7,063,404	$7,257,418	$7,586,940
Non-Operating Revenues	$12,628,628	$8,722,976	$13,237,525	$13,519,479	$9,176,177
Total Revenues	**$19,319,908**	**$15,597,718**	**$20,300,929**	**$20,776,896**	**$16,763,117**
Expenses					
Operating Expenses	$10,617,011	$10,916,944	$11,398,534	$11,908,756	$12,449,741
Non-Operating Expenses	$9,489,297	$4,085,509	$8,815,161	$8,891,460	$3,522,691
Total Expenses	**$20,106,308**	**$15,002,453**	**$20,213,695**	**$20,800,216**	**$15,972,432**
Net Income	**($786,400)**	**$595,265**	**$87,234**	**($23,319)**	**$790,685**
Beginning Cash Balance	$8,212,101	$5,675,702	$2,920,967	$1,158,201	($715,118)
Net Income	($786,400)	$595,265	$87,234	($23,319)	$790,685
Capital Expenditures	($1,750,000)	($3,350,000)	($1,850,000)	($1,850,000)	$0
Estimated Ending Cash Balance	**$5,675,702**	**$2,920,967**	**$1,158,201**	**($715,118)**	**$75,567**

Figure 2 below shows the projected ending cash balances under the same major CIP alternative scenarios. Under the alternative forecast the projected ending cash balance is only negative in one year under the base scenario; however, it is only greater than six months of general fund operating expenses in all years under alternatives B and C.

Finding*: It is projected that the District can achieve cash balances greater than six months of general fund operating revenues each year and still complete phase 2 of the administration building construction if the Super T Hangar Row is not constructed, or both Hangar 2 site work and the Super T Hangar Row are not constructed.*

The budget and alternative forecasts assume no additional debt is incurred by the District. The findings under the budget forecast and the alternative forecast do not preclude the District from financing a portion of the major CIP projects; however, additional cash flow and debt service coverage ratio analyses would need to be conducted to determine the amount and terms of financing that could be carried, if this is something the District wishes to pursue.

Figure 2
Projected Cash Balances under Major CIP Scenarios – Alternative Forecast



Budget Forecast Methodology and Assumptions

The forecast of revenues and expenditures is based on the TTAD staff-developed 2020 budget, as well as discussions with TTAD staff. Key assumptions included in the base projection that are subject to change include:

- **ADS-B:** The estimated cost is $1.20 million, included in fiscal year 2020. The annual service contract cost is estimated at $210,000 per year, starting fiscal year 2021.

- **Hangar 2**: Spending of $1.60 million in 2021 for site work only.

- **Administrative Office Buildings:** Spending of $550,000 in 2020, and $1.20 million in 2021 for office expansion and second meeting room on the first floor.

- **Super "Duper" T Hangars:** Planning and design costs of $550,000 has been included in fiscal year 2021. The remaining estimated $3.70 million has been split between fiscal years 2022 and 2023 evenly.

- **FAA Grants:** Federal grant funding is estimated based on 90% of pavement reconstruction costs and 50% of pavement maintenance costs.

- **Property Tax Revenues:** Placer County property taxes are estimated to grow at an annual rate of 3.80%. Nevada County property taxes are estimated to grow at an annual rate of 3.20%.

- **Community/Agency Partnerships:** Fiscal year 2020 includes just over $1.50 million for several community/agency partnerships, with $366,000 million of the total for workforce housing initiatives and $367,000 for general agency partnerships, and $367,000 earmarked for additional regional transit partnerships. The forecast increases or holds spending levels as agreed to in contracts with community partners including the Boys and Girls club, Reno Air Service Corp, Excellence in Education and other partners. Over the next five years, more than $7.47 million is included in the forecast for community/agency partnerships.

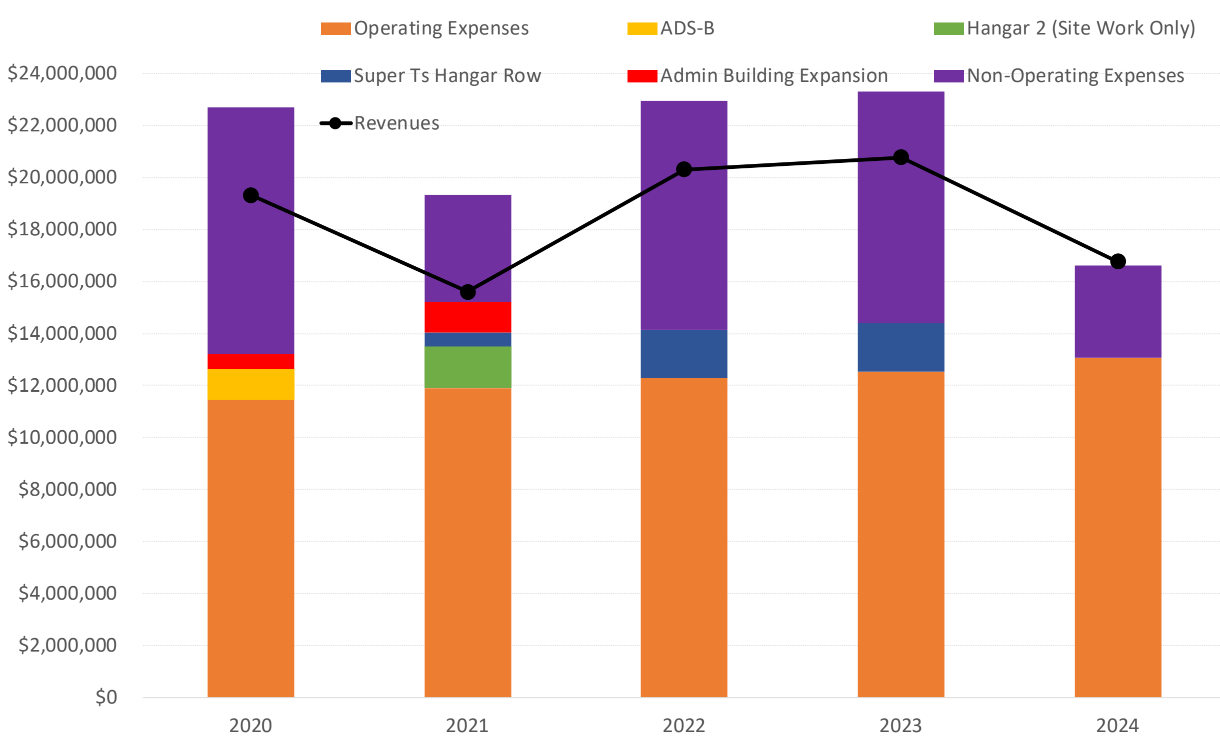
- **Professional Services:** In addition to typical annual costs such as accounting and legal support, professional services include annual recurring efforts on greenhouse gas reduction initiatives and a lobbyist, a one-time field house study and updated pavement management plan, as well as smaller miscellaneous services. In total, professional services costs are forecast to stay between $400,000 and $525,000 per year between 2020 and 2024.

- **Facilities Maintenance Costs:** Estimates of facilities maintenance costs include existing facilities maintenance (warehouses, terminal building, hangars, airfield and so forth) as well as new facilities maintenance (new air traffic control tower, new hangars). TTAD has contracted with Auerbach Engineering to provide a comprehensive assessment of facilities maintenance costs. The forecast should be updated with the comprehensive assessment figures when they become available.

Attachment A provides supporting tables for the budget forecast. All tables show the base projection (all major infrastructure projects, site work only for the Hangar 2 project, completed). **Attachment B** shows the tables that were changed in support of the alternative five-year forecast.

Table A-1 provides the projection by revenue and expense categories. **Figure 3** below displays the revenues and expenses under the base projection. Detail of FAA 90% grant-funded pavement reconstruction and smaller capital projects costs are listed in **Table A-2**. Although expenses are greater than revenues for the first two years, there are reserves available to cover the deficits. Nevertheless, in fiscal year 2021, under the base projection, the ending cash balance would be less than six months of general fund operating expenses.

Figure 3
Projection of Revenues and Expenses



Projected Expenses

Operations expenses are projected based on an analysis of historical costs and interviews with TTAD management. **Table A-3** shows that total operating expenses (which nets out repairs and maintenance, as these costs fluctuate from year to year) increased at an annual average rate of 14.0% between 2013 and 2018. During the same time period, the California Consumer Price Index (CCPI) increased at an annual average rate of 2.6%. The 20-City Engineering News Record Construction Cost Index (ENR CCI) increased at an annual average rate of 3.0%, and the San Francisco ENR CCI increased at an annual average rate of 2.1%. **Table A-3a** provides the indices' history for the past 20 years.

Table A-4 shows how expenses were projected by line item. Non-operating expenses to address costs of maintenance plans for facilities, utilities, pavement, and forest/lands, are projected in **Tables A-5 through A-7**.

Figure 4 shows the types of projected expenditures from fiscal year 2020 through fiscal year 2024. The annual projection of expenditures is shown in **Figure 5** on the following page.

Figure 4
Projected Types of Expenditures

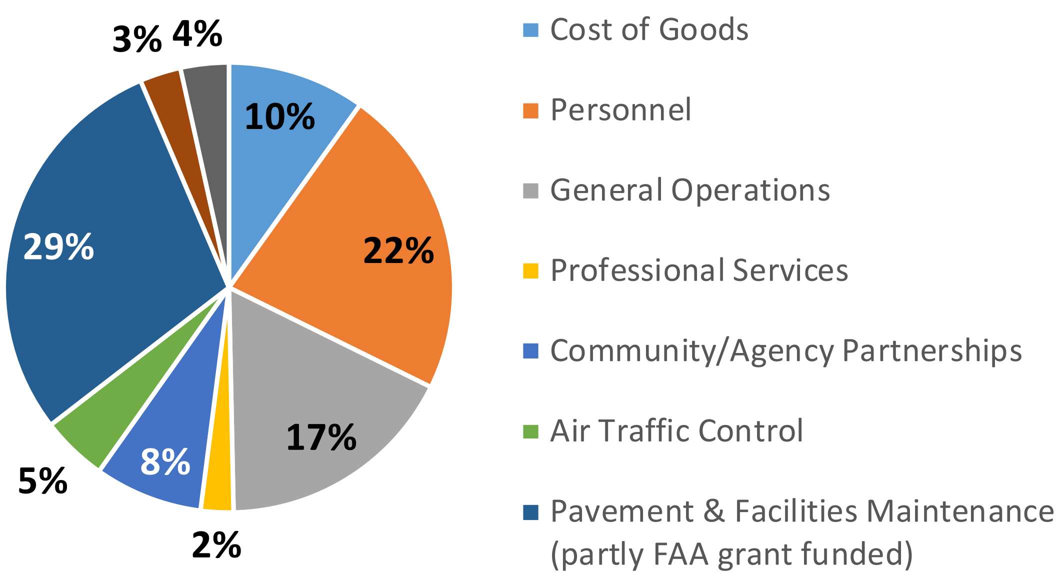
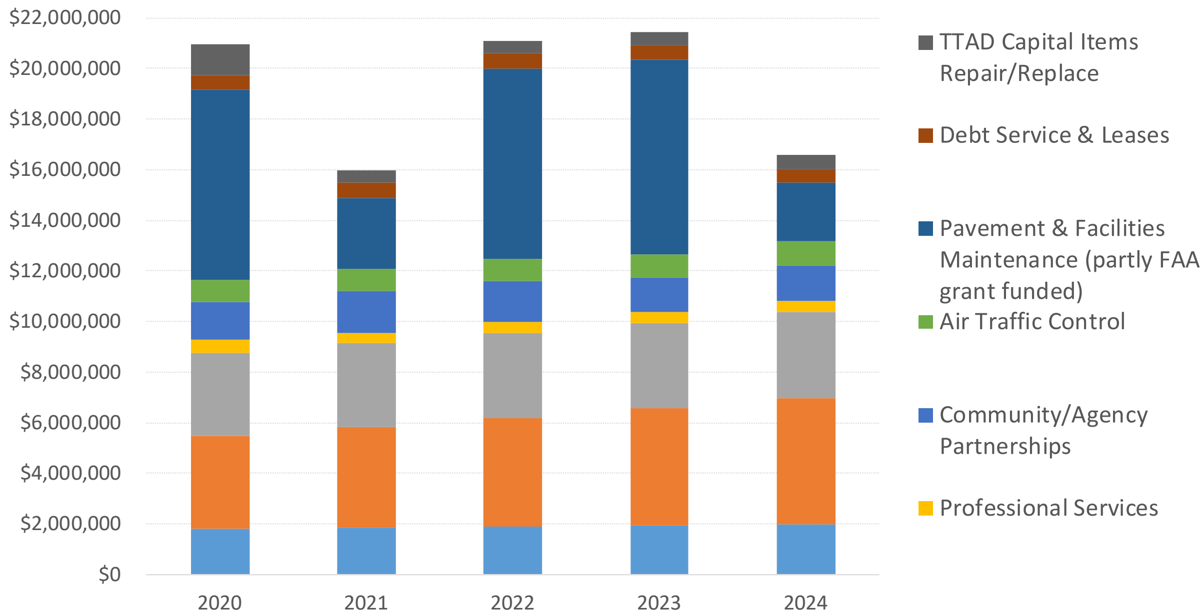


Figure 5
Annual Projection of Expenditures



Projected Revenues

The projection of revenues by line item is shown in **Table A-8**. Revenues include: airside revenues, hangar rental income, other business income, warehouse income, property tax, interest and miscellaneous revenues, and FAA grant revenues. Most revenues were inflated by the historical 20-year average annual increase in the California CPI of 2.6%. Aviation fuel sales and transient use fees were increased by 3.5% per year. T-Hangar/Box Hangar electricity surcharges were increased by 5.0% per year. Warehouse space rental income was increased 1.5% annually. Property taxes were increased by 3.8% per year for Placer County and 3.2% per year for Nevada County. Interest and other miscellaneous revenues were increased 2.0% annually.

Sources of projected revenue from fiscal year 2020 through fiscal year 2024 are shown in **Figure 6**. Annual sources of revenue are shown in **Figure 7**.

Figure 6
Projected Sources of Revenue

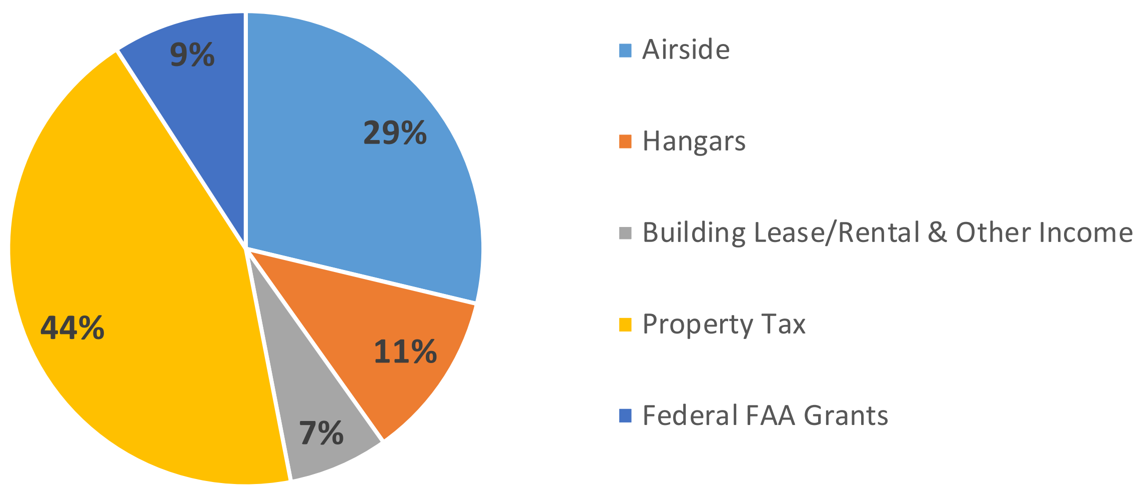


Figure 7
Projected Annual Revenue Sources

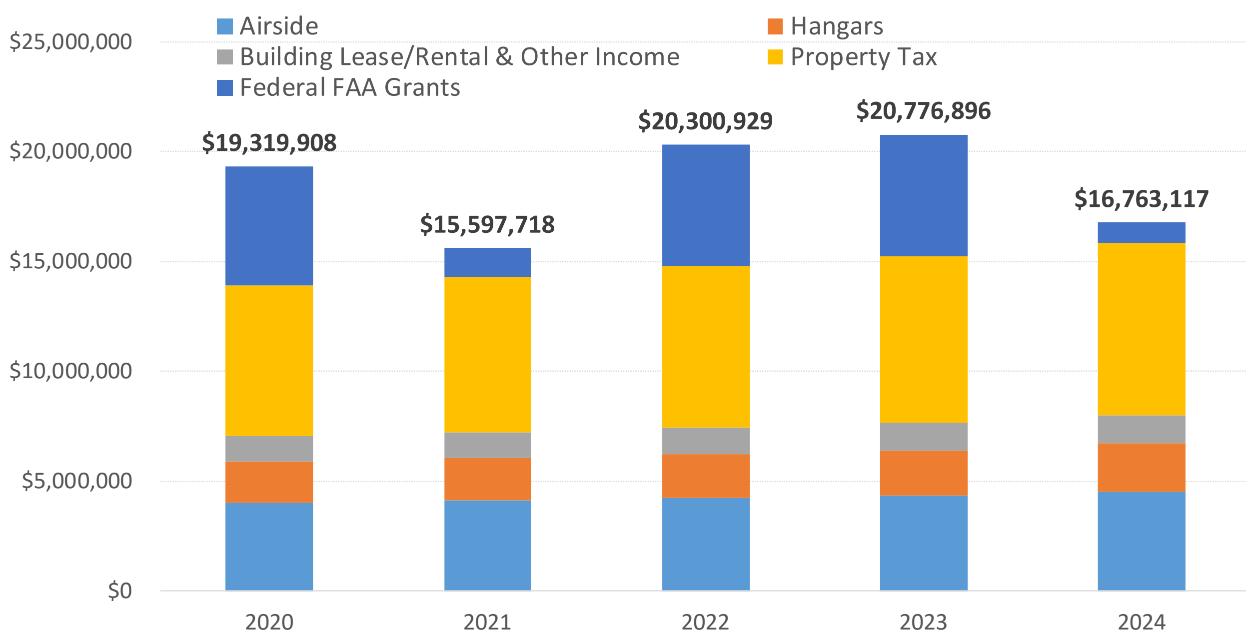


Table A-9 shows the prior four years' revenue by line item. Operating revenues increased by 14.4% on average each year. Between 2020 and 2024, operating revenues are projected to increase 2.7% to 4.5% each year.

Property Tax: Table A-10 shows TTAD property tax revenue since fiscal year 1994, which is the first full year of taxes following incorporation of the Town of Truckee. The table demonstrates that about two-thirds of property tax is from Placer County, and one-third from Nevada County. In the local government fiscal year from July 2018 to June 2019, property tax from Nevada County increased 6.8%, whereas Placer County property taxes had a much smaller gain of 0.5%.

Over the past 26 years, Placer County property tax revenue increased at an annual average rate of 6.8%. Nevada County property tax revenue increased at an annual average rate of 6.2%. Because the Placer County property tax revenue shows signs of slowing, property taxes are projected to increase at lower average annual rates of 3.8% for Placer County and 3.2% for Nevada County between 2020 and 2024.

Figure 8 shows historical and projected property tax revenues. The graph clearly shows the effect of the Great Recession between 2009 and 2014.

Figure 8
Historical and Projected Property Tax Revenue