MEMO:

To: Board of Directors and Staff
From: Jane E. Dykstra
Subject: Fiscal 2012-2013 Budget
Date: August 29, 2012

Attached you will find a draft budget for the 2012-2013 fiscal year. This is being provided to you in advance of the Budget Workshop, which is to be held on September 6, 2011 at 9:00 AM. For review and comparison purposes **please bring last year's budget to the workshop.** Consistent with prior years, flags (◄) have been added to denote items which require additional Board approval before funds may be expended.

Some budget highlights are as follows:

1. The number of gallons of both types of fuel to be sold in the 2012-13 fiscal year is budgeted to be equal to the actual number of gallons sold in the period from July 2011 through June 2012. That gives us a 12 month period that is unaffected by runway construction.

The fuel revenues are budgeted based on a margin of $0.75 being added to the purchase price of 100LL for self-serve sales and an additional $0.55 added for full-serve 100LL sales (the distribution between self versus full-serve sales was made based on the ratio since the new pricing structure took effect in January). A margin of $2.30 is added to the purchase price of JetA to arrive at the sales price. The District's purchase prices at June 30, 2012 were used to estimate revenues. In addition, revenue from truck rolls for full-serve 100LL has been budgeted based on activity for the past six months (the time when the ability to waive the roll fee with a minimum purchase went into effect). The Other Business Leasing (OBL) tenant discount program (Careflight, Sierra Aero and Soar Truckee) has been budgeted based on discounts of $0.10 per gallon for 100LL and $0.50 per gallon for JetA. The budget assumes the same number of gallons will be sold to the OBL tenants in the upcoming fiscal year as they purchased in the July 2011 – June 2012 time frame.

2. Tiedown and Transient Use Fee revenues were budgeted based on the activity for the last twelve months and the fee schedule currently in effect.

3. Hangar Rental Revenues have been budgeted based on the rates that went into effect September 1, 2012. The base rate for each hangar, less any annual prepayment discount, is considered revenue, and the signatory incentives taken by the tenants are reflected as expenses in the General and Administrative section. A 4% vacancy rate has been factored into the budgeted revenues. This is reflective of the turnover the District has seen over the past few months.

The District has one executive hangar (A09) in the overnight hangar pool in addition to Hangar #1 (previously Regent Air) and has set aside two T-hangars for overnight availability; overnight rental revenues are included in this section as well. Note that when a hangar is vacant it can also be used as a nightly rental – however, the budget makes no estimation of additional revenues from nightly rentals of the vacant hangars, relying on past activity instead.

There was discussion at the board level regarding offering incentives for hangar occupancy. The District currently has eleven hangars available to lease – keeping two hangars as overnight T-hangars. <u>All</u> of the vacant hangars were used for displaced tenants during the recent construction season, and their availability made the closing of hangar rows for pavement work (D, E, F, J and K) less of an inconvenience for our tenants. Management is not in favor of offering “move-in” rebates or other enticements – there are three basic reasons behind this position:

A. Management does not believe that the vacancy rate is due to the rental rate. Our vacancy rate is not as high as other locations in the regional market. Decreasing the rate through enticements will decrease the revenues the District can earn on the hangars.
B. Offering a discount to occupy *may* convince a tenant to take a hangar – and if it does, we *may* be setting the District up for additional collection issues and eviction situations when the discount ends and the tenant is liable for the base rate.
C. The District does not want to get into the “deal of the month” mentality. Having different rates for tenants can cause problems. Management does not believe that treating “new” tenants to better rates than our existing tenants would be well received by those tenants who have always paid their rent when due, without complaint (and there actually are close to 200 of these!). That does not even consider the bookkeeping side of tracking different rates for different hangars, or in the case of a “signing bonus” – how long they must commit to – and what happens if they don’t, etc.

If the Board would like to increase hangar occupancy, Management would suggest investigating the possibility of non-aviation usage – with the clause that if an aviation use comes, the hangar would revert to the District.

If the Board is concerned about the rental rates affecting vacancy, Management would suggest considering withholding the next CPI increase, or eliminating the one-half cent per square foot increase that the Board instructed be added to the CPI increase in years 2013 and 2014 – something that would affect all hangar tenants, not just new tenants. Alternatively, a sub-committee could be established to evaluate the current hangar rate. Staff is planning to present an update to the data on market rates presented at the January 2011 Board meeting.

As stated above, the budget was calculated using the rates in effect on September 1, 2012.

4. A 1.5% CPI increase has been factored into the Rental Revenues for Other Business Leasing and Warehouse Revenues. No revenues have been budgeted for Hangar #1, as it will be offered as heated hangar space at a premium rate.

5. Budgeted salaries, wages, and benefits (line 56) increased from last year’s budget by less than 1%. This reflects over $75,000 in savings related to the change in the employee medical insurance program. While the amount of the savings is based on estimates of District required payouts, those estimates are conservative in the eyes of our third party administrator.

The increase in the salaries and wages (line 44) is 3.7% ($1,309,557 in the prior year budget versus $1,358,187 in the current year). The 1.5% cost of living adjustment and an allowance for merit increases (which are at the discretion of the general manager) contribute to that increase. The merit increases were budgeted at an average of 2%. The performance award line has been increased to include various programs: safety awards (budgeted at $150 per employee), add-on assignment pay ($2,400), and the Aviation Knowledge Certification Program ($7,500). In addition, there are $5,000 in performance awards included in line 41.

The budget assumes all 19 positions are filled and includes seasonal workers in the Operations and Maintenance department. The District currently has 18 full-time and one part-time/seasonal employee on staff. A vacancy factor has been included in the budget – the factor was calculated as one-quarter of the total part-time wages budgeted (includes both seasonal and snow removal personnel) – AND – the wages equivalent to one of the District’s hourly positions being open for one-half of the year (based on an average of all hourly positions). Personnel expenses are allocated among the departments in accordance with management's best estimate of task performance. The following chart shows the percentage allocation by budgetary column.

Personnel Cost Allocation by Department, by Position

	Airside Operations	Hangars	Other Business Leases	Warehouse	Admin	Maint	Comm. Outreach	Land Mgmt.
General Manager	0.100	0.050	0.050	0.050	0.350	0.150	0.250	
Dir Av. & Bus. Svcs.	0.125	0.200	0.025	0.025	0.400	0.050	0.175	
Dir. Finance & Admin.	0.200	0.100	0.050	0.050	0.500	0.050	0.050	
Dir. Ops & Maint.	0.250	0.050	0.050	0.050	0.350	0.150		0.100
Accounting Clerk		0.500			0.500			
Envir./Tech. Specialist	0.050				0.100		0.800	0.050
District Clerk	0.100	0.020	0.010	0.010	0.600	0.010	0.250	
Ops & Maint Employees	0.500	0.030	0.020	0.020	0.100	0.280	0.050	
Snow Removal - Temps	0.500	0.250	0.050	0.050	0.070	0.080		

The District's CalPERS (line 46) contribution rate is currently 15.178%, and the most recent actuarial study forecasts that rate going to 15.4% in July 2013. However, CalPERS has advised all contracting agencies that the change they made in their discount rate assumption may have a 1% - 2% affect on the rate that goes into effect 7/1/13. The budget uses a rate of 16.4% for the period from July 1, 2013 – September 30, 2013. Line 46 includes both the District portion of the contribution and the employee portion – Line 47 then backs out the employee contribution that is made through payroll deductions. The second tier of the pension plan – which will apply to all full-time employees going forward – is not factored in as the timing of hiring an employee in the new tier is not known.

Employee Benefit Insurance (line 50) is 16.5% less than the prior year due to the change in the employee health insurance program approved at the June 2012 board meeting. As there is no history upon which to base the District's anticipated payouts for the self-insured portion of the program, a conservative assumption was made after consulting with the third party administrator. The District's medical premiums are budgeted to increase 10% beginning with the renewal on August 1, 2013. The dental and vision premiums are budgeted to increase by 7% at the time of the policy renewal. The amount shown as Employee Benefit Insurance is net of the 7% employees contribute toward the insurance.

The District's Workers' Comp Insurance (line 51) experience factor has increased from 88% to 103%; an increase which is partially offset by decreases in the applicable premium per $100 of payroll. The net increase over the prior year's budget is $4,160 or 7%. Training and Education (line 53) costs are budgeted at $43,000 to reflect the Aviation Knowledge Certification Program being instituted by the District to increase staff's knowledge of aviation-related issues as a part of the District's Peak Staffing Standard Procedure Instruction, the general manager's aviation stipend, employee flight currency, and other employee training opportunities. Other Employee Benefits (line 54) include the General Manager's car allowance of $500/month, cell phone allowances, $100/year per person for uniforms, plus insulated coveralls, jackets and other safety gear as needed.

6. Most Operating, General and Administrative Expenditures are based on actual amounts expended for the twelve-month period from 7/1/11 – 6/30/12 and then adjusting for specific circumstances. Detail is included in the Budget Assumption section.

7. Operating, G & A expenses increased $419,950 from last year's budget; however, $250,000 of that amount is related to the Airport Master Plan, $109,200 represents flight tracking system recurring maintenance fees that are being incurred now that the system is operational and $90,000 represents increased funding for the Air Fair. Major (greater than $10,000) variances are detailed below (line items in parenthesis correlate to the budget draft):

- Air Show (line 73) has been budgeted at $115,000 based on the latest thinking of the Air Fair and Family Festival Committee. The prior year budgeted amount was $25,000, the actual amount expended was just over $71,000 (with the difference being funded out of the "Annoyance Reduction and Community Outreach" designation within net assets.

- Directors' Fees & Board Meeting Expenses (line 79) is budgeted at $62,300 versus $94,500 in the prior year; a decrease of $32,200. The portion in the Community Outreach Department column ($40,000) represents the estimated costs of broadcast/internet production. The amount in the prior year was $75,000 as setup was initiated.

- Directors' Medical Insurance (line 80) decreased by $12,000 as some Directors went off their individual policies and on to Medicare. Despite the election and the fact that the makeup of the Board could change, the budget was made using the policies currently in effect, factoring in a 10% premium increase in January 2013.

- Election Expenses (line 82) are budgeted at $25,000 - there were no election expenses in the prior year.

- Geographic Information System (line 86) – Over the prior two years the District has incurred costs related to the system setup and training (totaling $67,556). As the system is now operational, additional costs will be expensed as incurred. The General Manager can speak to anticipated expenses and the benefits of the system.

- Operations Monitoring (line 94) $237,775 – This line includes both the costs related to the WASP system and the flight tracking system. The amount budgeted last year was $59,000, which included $30,000 for the WASP system and $29,000 for flight tracking system expenses. The FY2013 budget includes $32,000 for the WASP. As the flight tracking system is now operational, the annual maintenance fees will be charged, in addition to the site leases and other operational costs. The breakdown of flight tracking expenses is as follows:

▪ Site Leases	$ 15,000	
▪ Recurring Maintenance Fees	$ 88,700	
▪ Volans System Fees	$ 20,500	
▪ Other operating expenses	$ 7,850	
▪ FAA Facility Transmitting Authorization Process	$ 23,725	
▪ FAA Air Traffic Control (ATC) Certification Process	$ 50,000	- Potential
Total	$205,775	

The use of the Volans system developed out of the ACAT process and was funded out of their budget in the 2012 fiscal year; going forward it will be included with Operations Monitoring Expenses. The ATC certification process may or may not occur – Kevin Bumen will have more information.

- The Outreach Program (lines 95-100) - The total of the line items was $135,050 in the prior year and the FY2013 total is $219,200 – an increase of $84,000. The largest single increase is $70,000 for the updating of the website (line 96).

- Permits, Licenses and Fees (line 101) – Increased $24,600 due to the reallocation of existing fees from another line item ($6,000), new fees ($16,600), and anticipated increases in existing environmental and other mandated fees ($2,000). Previously the fees paid to Paychex to process the District's payroll were included with other Professional Expenses/Accountant. They have been reclassified to this line. The District now has a monthly fee related to the third party administrator (EB&M) of the self-insured portion of the employee health coverage ($6,000 annually) - and as the existing fees related to the Time and Labor Online timekeeping system are budgeted in this line, it seemed reasonable to include the EBA&M fees here as well. Paychex has proposed a Human Resource Module that would manage HR and Benefits administration. As the District's payroll processing, Section 125 administration, and benefit insurance are already under the Paychex "umbrella," the cost of adding the HR module ($2,500 implementation, $7,500 recurring) appears a reasonable investment of some of the savings the District will experience from the changes to the employee health coverage. The benefits include onsite training (Non-Harassment & Workplace Violence, Performance Appraisals, Avoiding Employment Discrimination, etc.), Employee Handbook management, workplace safety compliance, performance appraisal management, and an Employee Assistance Program – a benefit the Employee Benefits Ad-hoc Subcommittee has discussed the last couple of years.

- Professional Services – Legal (line 106) – have decreased from $96,000 in the FY2012 budget to $80,000 in the FY2013 budget. The decrease is the result of budgeting the aviation law expenses at $10,000 – as opposed to the $36,000 that were budgeted in the prior year; no aviation law expenses have been incurred to date this fiscal year.

- Professional Services - Other Professional Fees (line 108) are budgeted at $409,000 for the 2012-2013 fiscal year. The anticipated projects include: $250,000 for the Airport Master Plan, $65,000 for consulting costs related to the creation of a capital facilities plan, $50,000 for minimum standards and rules and regulations consultation, $35,000 for a community survey, $7,000 related to appraisals of potential land purchases and $2,000 for consultation related to employment issues. This represents a $341,000 increase over the prior year's budget.

- The prior year budget had a "Relocation-related Expenses" line item for $274,000 – there is no comparative line in the FY2013 budget.

- The utilities expenses are forecasted to be $43,000 less than what was budgeted in the prior year. The amount budgeted last year was only an estimate – this year there is a bit more history to base the estimate on, but as we still have not had a full year's occupancy in the new building, it is only a more educated estimate.

8. Repair and Maintenance Expense (lines 123 – 136) includes expenses related to the District's vehicles, equipment, airfield, and facilities. In addition, the forest management expenses are included in this section of the budget.

- The expenses for vehicles and equipment include fuel and insurance, in addition to repair and maintenance costs.
- The equipment expense (line 126) decreased $20,700 from the prior year budget. The decrease represents $10,000 less in budgeted diesel fuel for the equipment (primarily used for plowing) and the fact that the prior year budget included replacement of the tug

batteries ($8,500) and other specific equipment purchases that are non-recurring.

- The airfield equipment line (line 127), is $13,400 less than the prior year budget. The current total of $93,600 includes: $19,000 to install four new density altitude signs, $4,600 for lighted windsocks, $20,000 or the cleaning of both JetA tanks at the fuel farm, as well as $10,000 for safety equipment, $8,000 to paint the beacon, $5,000 to fence in the Alder Hill beacon, and recurring maintenance/operating costs of the fuel farm, fuel island, AWOS and other Airfield infrastructure.

The “R&M - Pavement Maintenance and Cracksealing” expense (line 129), includes funds ($30,000) to purchase supplies for crack sealing performed by District employees. It also includes all items listed for 2013 in the Pavement Management Program (page 4-13 of the Program). The total shown includes 15% for project management. The projects are included in the budget with no assumption of FAA grant participation; timing and FAA funding priorities will determine if any of the cost of the projects is shared with the FAA.

Repair and Maintenance - Facilities (line 132) includes facilities related maintenance expenses spread across the various departments. The amount in the “Hangars” column includes $166,000 to repair the roofs on hangar rows F, G and M, as well as $20,000 for hangar painting and $10,000 for hangar floor repairs. The repair and maintenance expense in the Other Real Estate column includes $30,000 to paint Hangar #1 and install fans to circulate air flow when it is being used as a heated hangar. The amount in the “Administration” column includes anticipated supplies for the new building, the janitorial contract and other related services (carpet cleaning, landscaping). The “Maintenance” column includes funding to begin the repair of the maintenance building roof.

Estimated Forest Management expenses of $100,000 have also been included in this section (line 134). The budget anticipates costs of $50,000 for maintenance on the off airfield properties and $50,000 for obstruction removal on the airfield.

9. Other Income and Expense includes the LAIF interest income which is calculated at 0.36% (July’s effective yield was 0.363%), on a sliding balance that reflects the estimated timing of the in-flow of property tax revenues. Earnings on the certificates of deposit have been included as well. On line 155 the receipt of the $500,000 long term receivable from the Joerger Family is included. This amount was due in July of 2012, and the General Manager is dealing with the parties to the contract to come to an agreement. There will be an interest element in the final settlement, but that interest is not included in the budget due to uncertainty. Line 156 is the balance of the $40,000 grant the District received for the Airport Master Plan. The District received $24,703 in the 2011-2012 fiscal year to offset expenses incurred to-date in the process.

10. Capital Expenditures have been broken into three sections: FAA Grant Eligible, Other Projects, and Land Purchases/Development.

- **FAA Grant Eligible** (lines 166-173): The FAA Eligible items include the **Apron Lighting and Segmented Circle Project,** which is included in the ACIP. Bidding has occurred for this project, and it is ready to proceed once FAA funding is finalized. The 1990 OshKosh **Plow Truck** is also included in the ACIP – although not until 2014. It is being included in the budget due to the age of the equipment and projected ongoing maintenance costs.

- **Other 2012-2013 Projects** (lines 179-192): The construction of the **Helipad for Emergency Services** on the Tahoe City golf course and the replacement of the **AWOS** are the two major items on the list. The replacement of the 2000 **Flatbed Truck** was anticipated by the

Equipment Replacement Schedule and is due to operational issues and ongoing maintenance costs. The purchase of two **Snowmobiles and a trailer** is necessitated by the issues surrounding access to the flight tracking transmitters in the winter – access to the various beacons would also be improved.

- **Land Purchase/Development** (lines 194-196): A placeholder of $750,000 was used in the budget. The costs related to the management of District land (e.g. Waddle Ranch forest work) have been included with the funds designated for purchase/development to calculate the percentage of property taxes used for Land Purchase/Management.

11. The slide in real estate prices continues to have an effect on the assessed valuation of the properties within the District's boundaries. The assessed valuation from both counties was relatively flat when compared to the prior year. Property Taxes (lines 208-213) have been estimated based on the Assessed Valuations received from the counties and the historical ratios of taxes received to prior valuations. Last year the revenues from Placer County were short of the estimated allocation they provided us by $34,785 (1%) and revenues from Nevada County were short of their estimated allocation by $25,271 (2%). As a result, after calculating an estimate of Tax Revenues, a 1.5% reserve will be taken on the Tax Revenues from both counties. The Estimated allocations from the counties won't be received until after the budget is finalized. The overall decrease in Property Tax Revenues from the actual received for the 2011-2012 property tax year to the amount budgeted for fiscal 2013 is 2%.

12. The Budget shows an estimated increase in cash of $84,542. A summary of the percentage of property tax revenues used by each of the categories highlighted by the Board's suggested budgeting parameters appears below.

Area/Program	% of Property Taxes in FY2013 Draft Budget	% of Property Taxes in FY2012 Budget
Loss from Operations **(Exclusive of Admin Building related costs in FY2012 and Master Plan costs in FY2013)**	23	21
TTAD Portion of FAA Grant Projects	2	5
Annoyance Reduction Programs and Community Outreach Projects	26	21
Other Capital Projects **(Exclusive of Admin Building)**	13	11
Land Purchase / Management	20	22
Administration Building **(Capital and Non-capital)**	0	62
Airport Master Plan	6	0
Pavement Maintenance	21	13

Please feel free to contact me before the Budget Workshop on the 6th with any questions you may have. Many decisions must be made by the Board, and the workshop will go more smoothly if everyone has any technical questions on the formulation of the budget out of the way beforehand.