



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
15

Meeting Date: **MARCH 3, 2011**

Subject:

Proposed Amendments to the Fiscal Year 2011 Operating Budget

Recommendation:

Adopt Resolution No. 2011-0035, approving amendments to the Authority's Annual Operating Budget for Fiscal Year 2011.

Background/Justification:

On July 1, 2010, the Authority Board adopted the modified FY 2011 Operating and Capital Improvement Program Budgets and conceptually approved the FY 2012 Operating Budget. The Authority's budget is adopted by Board action each fiscal year and the Board delegates authority to Staff to execute the fiscal year plan within the adopted budget constraints. Any amendments to the budget must be Board approved. Staff does not have authority to exceed the adopted budget without resolution from the Board.

Upon issuance of the Authority's Series 2010 General Airport Revenue Bonds (GARBs) in October 2010, the Authority took advantage of its ability to issue Build America Bonds (BABs) which benefited the Authority by an estimated \$16 million in net present value savings through lower net interest costs. As a result of the difference in accounting treatment for BABs, the Authority must recognize a higher interest expense than under typical tax-exempt GARB financing. Therefore, an additional \$7,712,000 in interest expense is anticipated for Fiscal Year 2011.

In addition, approximately \$22.3 million of Alternative Minimum Tax (AMT) Commercial Paper (CP) was originally anticipated to be repaid with the Series 2010 GARB issuance. However, the Authority's bond counsel and financial advisor recommended leaving this CP outstanding with amortization of principal beginning in FY 2011. The anticipated principal payment for FY 2011 is \$745,000.

Finally, the Authority was awarded an additional \$10 million in AIP grants from the FAA in September 2010, to be used for the Quieter Home Program (QHP). In order to be compliant with FAA grant expenditure guidelines, QHP must increase its Fiscal Year 2011 spending and budget by \$3 million.

000220

Fiscal Impact:

Increase in the Fiscal Year 2011 operating budget of \$11,457,000, making the total Amended Fiscal Year 2011 Budget equal to \$157,895,000. Funding sources for the \$11,457,000 increase include: 1) FAA AIP grants; 2) PFCs; 3) BAB interest subsidy; 4) Capitalized interest borrowed in the Series 2010 GARBs; and 5) Authority Cash.

Environmental Review:

A. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

VERNON D. EVANS
VICE PRESIDENT, FINANCE/TREASURER

RESOLUTION NO. 2011-0035

A RESOLUTION OF THE BOARD OF THE
SAN DIEGO COUNTY REGIONAL AIRPORT
AUTHORITY APPROVING AMENDMENTS TO THE
AUTHORITY'S ANNUAL OPERATING BUDGET
FOR FISCAL YEAR 2011

WHEREAS, the Authority Board voted to adopt the Fiscal Year 2011 Budget and Capital Improvement Program (CIP) and conceptually approved Fiscal Year 2012 Budget and passed Resolution 2010-0081R at a duly noticed public meeting on July 1, 2010; and

WHEREAS, Authority management prepared and presented a proposed amendment to the Fiscal Year 2011 operating budget which increases the total budget by an amount of \$11,457,000 resulting in a total Amended Fiscal Year 2011 operating budget of \$157,895,000; and

WHEREAS, the Board has provided an opportunity at its meeting for members of the public to comment on and ask questions concerning the Proposed Amended Fiscal Year 2011 Budget; and

WHEREAS, the Proposed Amended Fiscal Year 2011 Budget presents forecasted operating revenues and other funding to meet a balanced budget and other financial requirements as outlined under the Authority's Bond Master Trust Indenture; and

WHEREAS, the Board has reviewed the Proposed Amended Fiscal Year 2011 Budget and believes that the adoption and approval of the Amended Fiscal Year 2011 Budget is in the best interests of the Authority and the public that it serves.

NOW, THEREFORE, BE IT RESOLVED that the Proposed Amendments to the Annual Operating Budget for Fiscal Year 2011 are hereby adopted; and

BE IT FURTHER RESOLVED that the Authority's President/CEO or designee hereby is authorized to make such minor changes or modifications as are deemed to be necessary and in the best interests of the Authority and the public that it serves.

BE IT FURTHER RESOLVED that the Authority and all of its officers, employees and agents are hereby authorized, empowered and directed to do and perform all such acts as may be necessary or appropriate to implement the Adopted Amended Annual Operating Budget for Fiscal Year 2011.

BE IT FURTHER RESOLVED that the Board of the San Diego County Regional Airport Authority finds that this Board action is not a "project" as defined by the California Environmental Quality Act (CEQA) Pub. Res. Code Section 21065; and is not a "development" as defined by the California Coastal Act Pub. Res. Code Section 30106.

PASSED, ADOPTED AND APPROVED by the Board of the San Diego County Regional Airport Authority at a regular meeting this 3rd day of March, 2011 by the following vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK

APPROVED AS TO FORM:

BRETON K. LOBNER
GENERAL COUNSEL

000223



ITEM 15

San Diego County Regional Airport Authority

Proposed Amendments to Fiscal Year 2011 Operating Budget

Presented by:
Vernon D. Evans, CPA
Vice-President-Finance/Treasurer and CFO

March 3, 2011

Balanced Budget

- The Authority's Budget is adopted by Board action each fiscal year
- The Board delegates authority to Staff to execute the fiscal year plan within the adopted budget constraints
- Bond covenants require a balanced budget to maintain required debt service coverage levels
- Three unanticipated non-budgeted items have arisen in the FY 2011 Budget
- Any amendments to the budget must be Board approved
- Staff does not have authority to exceed budget without resolution from the Board

Quieter Home Program (QHP)

- In September 2010, the Authority received an additional \$10 million grant from FAA for QHP
- In order to be compliant with FAA guidelines for grant expenditures, QHP is requesting a \$3 million increase in their Fiscal Year 2011 Operating Budget
- Authority will use its existing balance of Passenger Facility Charges to pay local match portion of less than \$600,000

Build America Bonds

- The Authority sold \$215.4 million of 30-year Build America Bonds (BABs), which are taxable bonds that receive a 35% interest rate subsidy from the U.S. Treasury
- The BABs were issued at an interest rate of 6.628%
- The effective yield for the BABs (after the 35% subsidy) was 4.31% while the yield to maturity for the 30-year tax exempt maturity was 4.79%
- This equates to a 0.48% favorable effective yield for BABs vs. tax-exempt bonds, or \$16.0 million in net present value savings
- The BABs included a 10-year call provision at par to maintain flexibility for the Authority

Series A, B and Build America Bonds – Accounting Implications

- Accounting looks to Finance Accounting Standards Board, FASB 62, for bond eligibility to capitalize interest versus recording the interest as an expense.
- Under FASB 62, interest can be capitalized to designated and existing projects immediately if the debt is tax exempt.
- The BAB bonds tax exempt status does not apply under FASB 62, but does apply to Series A and B. BAB bonds interest is recorded under “old” FASB 34 guidance.
- BAB bond interest cannot be capitalized to the designated project until the money is spent. All unspent borrowings continue to be recorded as interest expense.
- BAB bond 35% federal interest rebate cannot be netted with the interest expense but must be separately recorded as interest income.
- This does not change the actual cash flow of the bonds. This is accounting treatment only.
- Therefore , the interest expense is projected for the fiscal year end to show a negative variance of \$7,185,000 and the Federal Government rebate on the Build America Bonds is projected to show a positive variance of \$3,691,000. As shown below, the net effect is a negative variance of \$4,021,000 with the current budget.

(In thousands)	Budget	Actual	Variance Favorable (Unfavorable)
BAB interest rebate	\$ -	\$ 3,691	\$ 3,691
Interest expense	(5,359)	(13,071)	(7,712)
	\$ (5,359)	\$ (9,380)	\$ (4,021)

Commercial Paper Principal Payment

- \$22.3 million Alternative Minimum Tax (AMT) Commercial Paper was not refinanced
 - Original intent was to refinance this CP, however on advice from Financial Advisors and Bond Counsel, it was not refinanced
 - Would have required stand alone \$22.3 million bond issue
 - Wanted to maintain floating rate component of debt
- Leaving CP outstanding created the need to begin principal amortization in FY 2011
- Amount of principal amortization in FY 2011 is \$745,000

Total Proposed Fiscal Year 2011 Budget Amendment

Description	Amount	Funding Source
BAB Interest	\$ 7,712,000	BAB subsidy / CAPI
QHP Increase	3,000,000	Grant / PFC
Debt Principal	745,000	Cash
Total Proposed Increase	\$ 11,457,000	

Total Proposed Fiscal Year 2011 Budget Amendment - Expenses

	FY 2011 Budget	FY 2011 Proposed Increase	FY 2011 Amended Budget
Operating Expenses:			
Total Personnel Expenses	\$ 38,557,425	-	\$ 38,557,425
Total Non-Personnel Expenses	83,091,894	-	83,091,894
Total Operating Expenses	121,649,319	-	121,649,319
Non-Operating Expenses:			
Joint Studies/Sound Attenuation	15,375,000	3,000,000	18,375,000
Debt Service	9,080,681	8,457,000	17,537,681
Legal Settlements	40,000	-	40,000
Total Non-Operating Expenses	24,495,681	11,457,000	35,952,681
Total Expenses	146,145,000	11,457,000	157,602,000
Equipment Outlay (over \$5,000)	293,000	-	293,000
Total Authority Expenses incl Equip Outlay	\$ 146,438,000	\$ 11,457,000	\$ 157,895,000

Total Proposed Fiscal Year 2011 Budget Amendment - Revenues

	FY 2011 Budget	FY 2011 Proposed Increase	FY 2011 Amended Budget
Operating Revenue:			
Total Airline Revenue	\$ 66,916,405	-	\$ 66,916,405
Total Nonairline Revenue	77,966,458	-	77,966,458
Total Operating Revenue	144,882,863	-	144,882,863
Interest Income	5,982,549	-	5,982,549
Nonoperating Revenue			
Passenger Facility Charges	33,731,900	-	33,731,900
Customer Facility Charges (CONRAC)	10,550,137	-	10,550,137
Quieter Home Program	12,088,500	2,417,700	14,506,200
Capital Grant Contributions	43,318,051	-	43,318,051
Other Nonoperating Revenue (BAB Interest)	-	3,691,000	3,691,000
Total Nonoperating Revenue	99,688,588	6,108,700	105,797,288
Total Revenue	\$ 250,554,000	\$ 6,108,700	\$ 256,662,700

Questions

