

**TUCSON AIRPORT AUTHORITY | Board of Directors Regular Meeting
March 3, 2021 | 3:00 p.m. | Remote Meeting**

THIS COUNCIL MEETING WAS A REMOTE PARTICIPATION ONLY MEETING. COUNCIL MEMBERS PARTICIPATED VIA WEBEX AND THE PUBLIC WAS PROVIDED WITH A LINK AND PHONE NUMBER/CODE WHICH THEY WERE ABLE TO JOIN THE MEETING VIA WEBEX.

CALL TO ORDER | ROLL CALL

Chairperson Dusenberry called the meeting to order at 3:03 p.m. He expressed condolences to Ex-officio Member Taunya Villicana and President and CEO Danette Bewley, who are dealing with the loss of family members at the present.

Members Present: Chairperson Bruce Dusenberry, Vice Chair Mike Hammond, Secretary Keri Silvyn, Treasurer Bill Assenmacher, Director Rob Draper, Director Judy Rich, Director Phil Swaim, Director Todd Jackson, and Director Sally Fernandez

Members Absent: Ex-officio Member Taunya Villicana

Staff Present: President and CEO Danette Bewley, Vice President and Chief Financial Officer Dick Gruentzel, Vice President of Planning and Engineering Mike Smejkal, Vice President and General Counsel Christopher Schmaltz, Vice President and Chief Operating Officer Bruce Goetz, Vice President and Chief Commercial Officer John Voorhees, Vice President and Chief Financial Officer (Incoming) Kirk Eickhoff, and TAA Clerk Byron Jones

Director Rich joined the meeting at 3:05 p.m.

CONSENT AGENDA

At the request of Secretary Silvyn, Items 2 and 3 were removed from the Consent Agenda.

1. Approve the minutes of the Board of Directors Regular Meeting held on January 25, 2021.

MOTION BY Secretary Silvyn, SECONDED BY Director Fernandez, to APPROVE Consent Item 1. The motion carried by the following vote:

Ayes 9 – Chairperson Dusenberry, Vice Chair Hammond, Secretary Silvyn, Treasurer Assenmacher, Director Draper, Director Rich, Director Swaim, Director Jackson, and Director Fernandez

Nays 0 – None

ACTION ITEMS

2. The Board will consider and may adopt Resolution No. 2021-05 authorizing a contract amendment to the existing Sun Corridor contract that will extend the term of the contract to align it with Sun Corridor's fiscal year.
3. The Board will consider and may adopt Resolution No. 2021-06 authorizing the execution of a contract with Sun Corridor for the purpose of continuing its economic development services for another two-year term, beginning July 1, 2021.

BOARD DISCUSSION

- **Are the TAA's expectations of Sun Corridor clearly defined to ensure that they are providing marketing services on TAA's behalf and not acting as a broker?** President and CEO Danette Bewley explained that a detailed scope of work is outlined in the new contract, and it provides Sun Corridor with a clear blueprint of what they are expected to deliver. Sun Corridor has an extensive network, and there are several ways in which potential business partners connect with the TAA. Sun Corridor actively pursues leads by meeting with site selectors. In some instances, potential business partners will reach out to Sun Corridor or the TAA directly. If contacted, the TAA forwards the inquirer to Sun Corridor because they have greater knowledge of the types of incentive programs the state offers. The TAA is responsible for negotiating the terms of any deals that are finalized, but the initial contacts are typically made through Sun Corridor.
- **Uncertain whether Sun Corridor's marketing services would fall under the authority of the Arizona Department of Real Estate, but it is a question that merits a legal review.**
- **While the TAA does not want to be in the position of micromanaging Sun Corridor, they should at a minimum provide quarterly marketing updates to the TAA. Furthermore, the directors should receive a report and potentially discuss any contracts or contract renewals under Action Items rather than Consent.** Bewley explained that Sun Corridor provides a quarterly report on the work they have done, including leads they have followed and where they have been marketing the Tucson region and the airport properties. Staff from the TAA meets monthly with Sun Corridor, but the COVID-19 pandemic has severely impacted the economic development activities.
- **Expressed support for the relationship with Sun Corridor.**

Bewley stated that the last time Sun Corridor reported to the TAA was during a meeting of the Economic Development and Community Engagement Council in September 2020. They have worked with the TAA on several leads during the past year. Some of the companies have put their projects on hold due to economic conditions, and Joe Snell, Sun Corridor President and CEO, keeps the TAA informed of developments.

- **Believes the directors should receive further information regarding the contract and scope of work the TAA has negotiated with Sun Corridor. As directors, they want to ensure that a clear distinction has been made between marketing and brokerage and that they are not**

approving anything that could potentially have legal consequences in the future. Bewley committed to providing additional information to the directors.

- **Should Items 2 and 3 be approved with the condition that the questions regarding Sun Corridor’s status as a broker are answered, or should the matter be continued to the next meeting?** Vice President and General Counsel Christopher Schmaltz recommended that the items be continued.

Chairperson Dusenberry continued Items 2 and 3 to the Board of Directors Regular Meeting on April 7, 2021.

CHAIRPERSON REPORT

4. Update and discussion on the structure and composition of the 2021 TAA Advisory Councils.

Chairperson Dusenberry reported that the directors need to establish the advisory councils for 2021. He will be circulating a proposed list of advisory council appointments to the directors, and he asked each of them to review the list and to provide feedback. The assignments will be finalized and placed on the agenda of the Board of Directors Regular Meeting on April 7, 2021.

Vice President and General Counsel Christopher Schmaltz reminded the directors to be careful with the use of email. One-on-one conversations are appropriate, but do not use the “Reply All” option, as the email chain could potentially violate the Arizona Open Meeting Law.

PRESIDENT AND CEO REPORT

5. Federal Relief Package - Additional COVID-19 Funding.

President and CEO Danette Bewley reported that the United States Congress passed a second COVID-19 relief package in late 2020, and the TAA was recently informed by the Federal Aviation Administration (FAA) that Tucson International Airport (TUS) was allocated \$5.9M. Together with the first package of \$22.6M, TUS has received a total of \$28.5M. There is an additional relief package under consideration, with \$8 billion earmarked for airports. TUS is likely to receive an allocation from this package; however, it typically takes the FAA two-to-three months to determine the allotments. If the same percentage used in the previous packages is maintained, TUS would receive \$15M for day-to-day operational expenses. Concessionaires were also included in the latest relief package; they had been excluded from the previous two.

DISCUSSION

6. Discussion of the staff proposal to use reserve funds to pay down Tucson Airport Authority’s unfunded, accrued liabilities in the Arizona Public Safety Personnel Retirement System.

Vice President and Chief Financial Officer Kirk Eickhoff presented.

The TAA participates in two retirement systems: the Arizona State Retirement System (ASRS), and the Arizona Public Safety Personnel Retirement System (PSPRS). The vast majority of TAA employees are enrolled in ASRS, whereas all sworn, non-retired public safety officers are enrolled in the PSPRS. There

are key differences between the two pension systems, and the key components of the PSPRS are as follows:

- All assets are pooled for investing, but each participating agency's assets and liabilities are accounted for separately.
- The TAA oversees two separate PSPRS plans: 1) TAA Police Pension, and 2) TAA Fire Pension.
- Each participating agency pays a different contribution rate as determined by the plan actuary.
- TAA contribution rates as of July 1, 2020: Police – 95.30%, Fire – 95.19%.
- Employee rates are capped at either 7.65% or 11.65%.

Based on the last data made available by the PSPRS, the combined police and fire PSPRS pension funds are currently funded at only 29%. The TAA's high contribute rates are determined by the PSPRS actuarial analysis, which calculates the contribution rates required to fully fund the plans over a 16-year period. From a financial perspective, this is not the optimal path for the TAA.

Several factors contributed to the underfunding of the pension plans:

- The value of the plan's assets was diminished by the 2008 market crash.
- Historically, the pension-benefit-increase (PBI) formula was unsustainable. The formula was changed in 2016 by voter initiative.
- The PSPRS was required to refund \$250M in employee contributions, plus interest, as the result of lawsuits filed by members challenging changes that were made to the plans after hire. This further reduced the plan's assets.
- A decline in the assumed earning rate.
- Changes in the mortality assumptions for beneficiaries (People are living longer).
- Changes in payroll growth assumptions.

If the TAA were to maintain the status quo, the PSPRS pension systems would be fully funded in 16 years; however, this would involve higher overall pension expenses. Lower starting assets translate to lower overall dollar returns, resulting in the need to pay higher contribution rates. This would also make the TAA more vulnerable to market volatility.

The optimal way to decrease the pension expense and to reduce rate volatility is to increase the funding of the pension liability. The TAA is in a favorable financial position to do this due to a provision in the current Airline Use Agreement which allows the TAA to divert up 52% of the revenues collected from industrial tenants into a Special Reserve Fund (SRF). This fund is used to finance various internal projects rather than going to the bond market. The current balance of the SRF is \$64M.

The TAA can use SRF dollars to "loan" money to the airport system to (airlines) fully fund the PSPRS pension, then repay the loan back into the SRF over a 16-year term at 2.5% interest. Staff estimates that \$27.2M would be required to fully fund the PSPRS pension, thereby reducing the net liability to zero dollars. Assuming the PSPRS can realize the anticipated 7.3% long-term yield on investments, the pension would remain fully funded.

Staff modeled the estimated net effect both a 5.3% and 7.3% return on investment would have on how much the TAA would need to pay into the PSPRS system over 16 years to fully fund the pension

plans with and without paying down the unfunded, accrued liabilities.

(\$ Millions)	PSPRS Average Investment Return	
	7.30%	5.30%
TAA PSPRS contributions without UAL paydown	\$58.1	\$75.5
TAA PSPRS contributions with UAL paydown	<u>(\$9.7)</u>	<u>(\$33.1)</u>
Total savings	\$48.4	\$42.3
Principal & interest payments on SRF loan	<u>(\$33.0)</u>	<u>(\$33.0)</u>
Net savings to Airport System (airline rates & charges)	<u>\$15.4</u>	<u>\$9.3</u>
SRF Balance - End of Year 16		
With UAL paydown	\$36.5	\$36.5
Without UAL paydown	<u>(\$32.1)</u>	<u>(\$32.1)</u>
Increase in SRF balance	<u>\$4.5</u>	<u>\$4.5</u>

Conclusions:

- With a 7.3% return, the airport system (airlines) will save \$15.4M over 16 years.
- With a 5.3% return, the airport system (airlines) will save \$9.3M over 16 years.
- In both scenarios, the SRF balance will end \$4.5M higher than if no action was taken.

Summary:

- **Problem:** The TAA’s PSPRS pension plans are underfunded, causing elevated employer contribution rates (higher expense) and higher volatility.
- **Proposed Solution:** Rather than issue bonds, the TAA will “loan” \$27.2M to the airport system to reduce (eliminate) the net pension liability.
- **Estimated Financial Benefits:** \$10-\$15M over 16 years, directly reducing the burden on the airport system, plus an additional \$4.5M in the SRF at the end of the loan term.
- **Other Benefits:** Demonstrates commitment to controlling airline costs, decreases rate volatility, and establishes the TAA as an employer of choice for police and fire personnel.

BOARD DISCUSSION

- **Requested clarification on the SRF fund balance during years one through 15. Is the TAA at risk of having a shortfall if other situations arise, such as if anticipated grant funding for the Airfield Safety Enhancement (ASE) Program do not materialize?** The SRF is an optional source for local matching funds. It is difficult to predict how much grant funding can be obtained for the ASE project, because these types of projects may be grant funded anywhere between 70% and 91%. However, because the total cost is more than \$300M, the TAA will need to consider external financing options at some point. The airport system has extremely low debt service. Having the PSPRS pension plans fully funded would eliminate the liabilities from the balance sheet and would place the TAA in a more favorable position in the bond market.
- **Is the SRF the preferred funding source for capital improvement projects, and would that be curtailed during years one through 15?** Capital improvement projects are grant funded in large part, and the typical source for local funding is revenues derived from rates and fees the

airport charges. The primary purpose of the SRF is as an investment source. An example of a typical use was the airport loaning a tenant the funds to replace a hangar door in return for their agreement to sign an additional ten-year lease.

The airport occasionally uses the SRF to fund capital improvement initiatives, such as the recently installed jet bridge on Concourse B. The TAA used a SRF loan to finance the cost, which will be amortized over 20 years through the rental rates the airline pays to use the gate. There is also revenue being generated from loans for previous projects that are currently paying into the SRF. The fund has also been used in some years to minimize the rate increases to the airlines. Balancing the types of uses and amounts that have historically been drawn from the SRF against the annual revenue flowing into it, the SRF is anticipated to remain solvent into the future.

- **Expressed support for the proposal. Having been involved previously in administering pension plans, this is a creative way to reduce future pension costs.**
- **Will this have an immediate effect on the TAA's reimbursement rate to the PSPRS?** This would be calculated into the rates beginning July 1, 2021, and the rate of reimbursement will decrease from 95% to around 15%. This will also have a significant effect on operating costs and the rates and fees the TAA charges the airlines.
- **Does the TAA have a policy to maintain a minimum balance in the SRF and a policy which governs the use of these funds? How will the TAA ensure there are sufficient funds available for emergencies?** There is currently no policy that requires that a minimum balance be maintained in the SRF. There is an additional operations and maintenance (O&M) reserve fund that is maintained as a backstop for emergencies. This fund is adjusted each year as, per the Airline Use Agreement, the TAA is required to set aside a minimum of 25% of its annual operating expenses in the account. The current balance is just over \$8M.
- **Requested that staff research whether other airports maintain an SRF like the TAA's and whether they have in place policies regarding its use.**
- **Were any other avenues looked at to make up the PSPRS pension deficit?** Some municipalities are using a different type of funding mechanism which involves collateralizing their infrastructure and leasing it back, but it is in essence a bond as they are paying interest on it. The advantage of fully funding the pension plans up front using internal financing is that it will allow the TAA to earn 2.5% interest as opposed to paying 2.5% interest.
- **Who manages the PSPRS pension system and the SRF fund?** The PSPRS has a professional staff that manages their financial portfolio and that their financial statements are available online through the PSPRS website. The TAA contracts with Patterson and Associates, an Austin, Texas-based broker to manage its SRF funds. They specialize in managing investment portfolios for public entities. Investment strategies are governed by the TAA's investment policy, which emphasizes preservation of capital, and state statutes, which control the use of public funds.
- **Questioned whether paying down the unfunded, accrued liabilities was necessary due to**

the fact there is no requirement that the plan be fully funded. Would the TAA achieve the same result by having Patterson and Associates adjust the targeted rate of return from 0.3% to 5.3% or 7.3%?

- The TAA is subject to various state statutes and arbitrage regulations that govern how public moneys may be invested. A public agency cannot, for example, borrow money tax-free and then invest it for a higher rate of return.
- A result of not adopting the proposed plan would be to forego the projected \$15M in savings in rates and charges to the airlines, which effects the sustainability of the TAA's business model. The goal is to make TUS as attractive as possible to both continue and to expand their service in this market.

ACTION ITEMS

7. FUNDING OF PUBLIC SAFETY PENSION UNFUNDED, ACCRUED LIABILITIES

MOTION BY Treasurer Assenmacher, SECONDED BY Vice Chair Hammond, to ADOPT Resolution No. 2021-07 authorizing the use of up to \$27.2 Million of reserve funds for paying down the Tucson Airport Authority's unfunded, accrued liabilities in the Arizona Public Safety Personnel Retirement System. The motion carried by the following vote:

Ayes 8 – Chairperson Dusenberry, Vice Chair Hammond, Secretary Silvyn, Treasurer Assenmacher, Director Rich, Director Swaim, Director Jackson, and Director Fernandez

Nays 1 – Director Draper

DIVISION UPDATES

8. FINANCE AND ADMINISTRATION

A. January 2021 YTD Financials: Financial Summary/Aviation Activity Report

Vice President and Chief Financial Officer Kirk Eickhoff presented.

- FY21 year-to-date landed weight is 7.5% favorable to budget but is 39.4% lower than FY20.
- FY21 year-to-date passenger volume is 15.2% below budget, and it is 60.8% lower than FY20.
- Passenger numbers have been much lower than anticipated because of COVID-19, but over the past couple of weeks, there has been a noticeable increase as more people are vaccinated.
- The TAA is still on track to meet budget for FY21.
- All revenue categories except concessions were favorable to budget in January. The decrease in revenue from concessions is driven by the decline in passenger traffic.
- Operating expenses were lower than expected, driven primarily by cost-cutting measures and delays in contractual services. Expenditures in this category will increase during the second half of the fiscal year, but staff forecasts that it will come in under budget.

January 2021 Flight & Passenger Activity

<u>Month</u>	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	
Total Passengers	113,437	318,793	(205,356)	-64.4%
Average Daily Seat Capacity	3,931	6,530	(2,599)	-39.8%
Average Load Factor	44.9%	75.4%	-30.5%	
Average Daily Departures	35.5	57.2	(21.7)	-37.9%
<u>Four Months Year-To-Date</u>				
Total Passengers	510,577	1,300,933	(790,356)	-60.8%
Average Daily Seat Capacity	3,606	6,276	(2,670)	-42.5%
Average Load Factor	57.1%	83.3%	-26.2%	

January 2021 Financial Results

(\$ Millions)			<u>Actual vs. Budget</u>		<u>Prior Year</u>	<u>Current vs. Prior Year</u>	
<u>Month</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual vs. Budget</u>				
Operating Revenues	2.6	2.5	0.1	4.0%	3.9	(1.3)	-33.0%
Operating Expenses	2.7	3.1	(0.3)	-11.2%	3.0	(0.3)	-9.4%
Operating Income (Loss)	(0.1)	(0.5)	0.4	na	0.9	(1.0)	na
<u>Four Months Year-To-Date</u>							
Operating Revenues	10.5	10.1	0.5	4.8%	15.6	(5.1)	-32.5%
Operating Expenses	10.5	11.7	(1.2)	-10.1%	10.8	(0.3)	-2.5%
Operating Income	0.0	(1.6)	1.7	na	4.8	(4.8)	-99.3%

9. PLANNING AND ENGINEERING

A. Airfield Safety Enhancement Program Quarterly Update

Vice President of Planning of Engineering Mike Smejkal presented.

- The Airfield Safety Enhancement (ASE) Program is moving from the design phase into the production phase, with construction of GMP 1 having already begun.
- The TAA will begin advertising the next major construction package (DBB1) soon.

10. OPERATIONS

A. FAA Part-139 Inspection | March 22, 2021

Vice President and Chief Operations Officer Bruce Goetz presented.

- The Federal Aviation Administration (FAA) will be onsite the week of March 29, 2021, to conduct the on-site inspection. This is the last step in the year-long process. Staff will have a further update at the Board of Directors Regular Meeting on April 7, 2021.
- The TAA recently acquired two surplus bomb robots from the federal government at little cost to the Authority. These specialized robots typically cost \$75K. One of the robots is brand-new while the other has seen some use. Some of the personnel on the TAA's police force have experience with explosive ordinance disposal, so these robots will be an asset to the TAA.

11. MARKETING AND AIR SERVICE

A. Marketing Update

Director of Communications and External Relations Jessie Butler presented.

The TAA recently launched the "Nonstop for Tucson" campaign and is making use of all available means to promote the airport. Campaign advertisements have appeared on freeway billboards, social media, and staff is investigating the possibility of doing television advertisements in the next quarter. There have been 110,00 unique views of the campaign video in the past two weeks, which is very impressive. Staff is pleased with the analytics they see. Butler thanked the directors for their support during the program's development.

BOARD DISCUSSION

- **What is the status of COVID-19 testing at the airport considering issues Pima County has had obtaining financial reimbursements from the state? Has there been any discussion of cancelling the testing, and would the TAA continue to offer the testing if the County withdraws its funding?** Vice President and Chief Operating Officer Bruce Goetz answered that the testing is still ongoing, although the number of tests per day has dropped significantly from the peak of 350 to 400 per day. They are currently performing 35-to-40 tests per day. The TAA remains in close contact with Pima County and Paradigm Labs, and up to now there has been no discussion of withdrawing their participation. In that event, the TAA would pursue funding from the State Department of Health to fund the testing considering Governor Doug Ducey's past comments supporting the testing of passengers flying into the state. Considering the decline in demand and the significant costs of testing, the TAA would discontinue the program without the support from the local or state governments.

B. Air Service Update

Senior Director of Air Service Development and Marketing David Hatfield presented.

Southwest Airlines had previously resumed Saturday, nonstop flights to San Diego, California, with the intention of increasing to daily flights in April. They had also been scheduled to resume nonstop flights to Oakland, California, as of March 11, then maintain both the San Diego and Oakland routes through the summer. Due to soft booking numbers, they will be pulling these routes back in April. The strict quarantine that was affecting San Jose, California, was lifted today, so there is anticipation that interest in this market will pick up again soon.

There are positive trends in the numbers during the past several weeks. Staff has noticed a significant increase in passenger traffic, which was initially attributed to the long, Rodeo Break weekend and the pent-up demand from families with kids being out of school; however, Visit Tucson is tracking an increase in resort and hotel bookings as well. For the first part of February, average daily traffic was 32% of what it was a year ago, but towards the end of the month, it had climbed to 48.9%. At the start of February, the percentage of daily seats filled was 54%, but by the end of the month, it was 76%.

NEXT MEETING

The next meeting will be held on April 7, 2021, at 3:00 p.m. via Webex.

ADJOURN

There being no further business to discuss, Chairperson Dusenberry adjourned the meeting at 4:49 p.m.

APPROVED BY:

Keri Silvyn

Keri Silvyn, Secretary

Date: Apr 12, 2021

Prepared by:

Byron M. Jones

Byron M. Jones, CMC, CAP, TAA Clerk

Date: Apr 12, 2021