

**TUCSON AIRPORT AUTHORITY | Finance and Risk Management Council Meeting
July 23, 2021 | 1:00 p.m. | Remote Participation Only**

THIS COUNCIL MEETING WAS HELD BY REMOTE PARTICIPATION ONLY. COUNCIL MEMBERS PARTICIPATED VIA WEBEX. MEMBERS OF THE PUBLIC WERE PROVIDED A WEBEX LINK AND PHONE NUMBER/CODE INCLUDED IN THE PUBLIC MEETING NOTICE IN ORDER TO ATTEND.

CALL TO ORDER | ROLL CALL

Chair Penn called the meeting to order at 1:00 p.m.

Members Present: Chair Tony Penn, Vice Chair June Crawford, Council Member Bill Assenmacher, Council Member Ron Sable, Council Member Fran Katz, Council Member Lea Márquez Peterson, Council Member Phil Swaim, and Council Member Brandt Hazen

Members Absent: Council Member Henry Boice, Council Member Vance Falbaum, and Council Member Mike Stilb

Others Present: TAA Chairperson Bruce Dusenberry; J.B. Shockey, representing Crest Insurance; Doug Adelberg, representing Lovitt & Touché; and Rex Jorgensen and Matt McManus, representing Alliance Insurance Services

Staff Present: President/Chief Executive Officer Danette Bewley; Vice President/Chief Financial Officer Kirk Eickhoff; Deputy General Counsel Kim Ryan; Director of People Operations Andy Votava; Manager of Financial Planning, Budgeting and Analysis Jon Wright; Insurance and Finance Coordinator Alexander St. Paul; Property Administrator Kathleen Stalter; and TAA Clerk Byron Jones

INTRODUCTIONS AND PURPOSE OF COUNCIL | INTRODUCTION OF SENIOR STAFF

President/CEO Danette Bewley introduced the staff members who were present.

ACTION ITEMS

1. APPROVAL OF MINUTES

MOTION BY Council Member Swaim, SECONDED BY Council Member Sable, to APPROVE the minutes of the Finance and Risk Management Council meeting held on August 21, 2020. The motion carried by the following vote:

Ayes 7 Chair Penn, Vice Chair Crawford, Council Member Sable, Council Member Katz, Council Member Márquez Peterson, Council Member Swaim, and Council Member Hazen

Nays 0 None

NOTE: Due to technical issues, Council Member Assenmacher did not participate in the vote.

2. GROUP INSURANCE PLAN RENEWALS

Director of People Operations Andy Votava introduced Doug Adelberg of Lovitt & Touché, who presented on the insurance plan renewals.

- Cigna will remain the TAA's medical plan provider for FY 2022 with a slight premium increase of 2.3%.
- Added an additional high deductible medical plan (HSA), which gives employees additional choices while reducing the costs to the TAA.
- Cigna's dental plan had a slight increase of 3%, which is below the 5% cap.
- All other benefits renewed at current rates.
- Added an identity theft benefit.

COUNCIL DISCUSSION

- **How many employees are projected to enroll in the high deductible HSA plan?** Adelberg stated that there is a high deductible plan in place which some employees are already using. He projected that between 10 and 15% would migrate to the new plan. They will have a better idea after open enrollment, which is a month away.
- **Is the maximum out-of-pocket still affordable?** Adelberg replied that it is competitive. Depending on the plan choice, employees can opt to have higher payroll deductions and lower out-of-pocket costs when the benefit is used, or lower payroll deductions and higher out-of-pocket costs at time of service.

MOTION BY Council Member Swaim, SECONDED BY Vice Chair Crawford, to RECOMMEND for approval to the Board of Directors the TAA's employee group insurance coverages, to be effective October 1, 2021. The motion carried by the following vote:

Ayes 8 Chair Penn, Vice Chair Crawford, Council Member Assenmacher, Council Member Sable, Council Member Katz, Council Member Márquez Peterson, Council Member Swaim, and Council Member Hazen

Nays 0 None

3. WORKERS' COMPENSATION INSURANCE RENEWAL

Director of People Operations Andy Votava introduced J.B. Shockey of Crest Insurance, who presented on the workers' compensation renewal.

- The TAA's experience modification rate increased from 2019 to 2020 (.63 to .76), but they were able to counter the rate increase by using scheduled credits.
- The renewal premium is \$152,849, which is lower than the expiring premium of \$155,544.
- There were only five claims this year.
- The Arizona Senate Bill 1451's mandate requiring insurers to accept cancer claims from firefighters, regardless of the cause, has driven most of the insurers out of the market. The renewal rate is still good under the circumstances, and the TAA has had a positive experience this year with AmTrust North America.

MOTION BY Council Member Sable, SECONDED BY Council Member Assenmacher, to RECOMMEND for approval to the Board of Directors the TAA's Worker's Compensation insurance coverage, to be effective September 1, 2021. The motion carried by the following vote:

Ayes 8 Chair Penn, Vice Chair Crawford, Council Member Assenmacher, Council Member Sable, Council Member Katz, Council Member Márquez Peterson, Council Member Swaim, and Council Member Hazen

Nays 0 None

4. COMMERCIAL LINES INSURANCE RENEWALS

Vice President/Chief Financial Officer Kirk Eickhoff introduced Rex Jorgensen and Matt McManus of Alliant Insurance Services, who presented on the commercial insurance renewals.

- This has been the most challenging insurance market since the 1980s. Despite the challenges, they were able to negotiate a flat renewal for the nine lines of coverage that comprise the property and casualty program.
- Cyber Security
 - This market is in freefall given recent security breaches involving public entities.
 - Cyber security has historically been underpriced, resulting in insurance companies sustaining huge losses. They are now adjusting their premiums to catch up and to make them measurable to the risk involved. Consequently, coverage limits are decreasing inversely to the rises in premiums. For example, Beazley's expiring premium of \$11K was for \$3M in coverage, but the renewal premium of \$200K only covers \$1M. This is the market trend.
 - Cowbell is new to this market. It relies heavily on artificial intelligence and data mining in assessing the vulnerabilities of public entities. Cowbell has some conditional technical requirements that the TAA must meet within 60 days.
 - Staff recommends moving ahead with Cowbell for cyber security coverage.
- Deadly Weapon Response Program
 - This is a new product that addresses areas not covered by the TAA's liability and property coverages. These include third party bodily injury liability, first party property damage, and business interruption/crisis-management consulting for deadly weapon events.
 - Alliance recommends the addition of this line of coverage as it provides significant protection at minimal cost.

MOTION BY Council Member Márquez Peterson, SECONDED BY Council Member Swaim, to RECOMMEND for approval to the Board of Directors the renewal of TAA's commercial lines of insurance, including Property, Airport Liability, Commercial Auto, Inland Marine, Management Liability (Directors and Officers), Crime and Special Risk, Cyber Security, Law Enforcement Liability, and Deadly Weapon Response (new coverage for consideration), to be effective August 15, 2021. The motion carried by the following vote:

Ayes 8 Chair Penn, Vice Chair Crawford, Council Member Assenmacher,

Council Member Sable, Council Member Katz, Council Member Márquez Peterson, Council Member Swaim, and Council Member Hazen

Nays 0 None

FINANCIAL BRIEFING

Vice President/Chief Financial Officer Kirk Eickhoff gave a financial briefing as a preparation for next month's consideration of the FY 2022 budget.

ATTACHMENT ONE: Finance & Risk Management Council Briefing (Presentation)

Council Member Márquez Peterson left the meeting at 2:00 p.m.

ADMINISTRATIVE UPDATES

a. Investment Report for the Third Fiscal Quarter ended June 30, 2021

Vice President/Chief Financial Officer Kirk Eickhoff gave a report on the TAA's investment portfolio for the fiscal quarter that ended June 30, 2021.

ATTACHMENT TWO: FY 2021 3rd Quarter Investment Summary (Presentation)

b. May 2021 YTD Financial Report

- Landed weight has trended slightly favorable to budget for the year but began to recover significantly beginning in mid-February.
- Passenger levels were unfavorable to budget but also began to recover beginning in February. Activity is still well below FY 2019, but the trend continues to be upward.
- The Average Load Factor (ALF) for May was 89.4%, which was slightly higher than the same period in FY 2019. As the ALF increases, the likelihood increases that airlines will add additional air service.
- Operating income for May was \$1M favorable to budget, driven by the higher-than-expected passenger activity, parking revenues, and rental car revenues.
- Operating income for the year to date was \$3.6M favorable to budget.
- Staff has continued to work to reduce operating expenses, and the TAA is projected to end the year favorable to budget.

ATTACHMENT THREE: May 2021 YTD Financial Highlights (Presentation)

Council Member Sable left the meeting at 2:03 p.m.

President/CEO Danette Bewley stated that the TAA has been allocated \$44.5M from the federal relief programs. Last year \$2.5M was used to balance the books. This year slightly more will be used, but still less than was budgeted. In FY 2023, the remaining funds will be targeted towards capital development to coincide with the ramping up of the Airfield Safety Enhancement Project (ASE). The TAA will continue to pursue federal grants through the Federal Aviation Administration's Airport Improvement Program and discretionary grants;

however, these funds are not guaranteed. The Authority may have to offset the local matching shares with the federal relief funds.

COUNCIL DISCUSSION

▪ **Is there a deadline by which the federal relief funds must be used?**

President/CEO Bewley: Each of the grant funds has a sunset of four years. The TAA leadership has developed a plan to exhaust each of the funds within the four years.

▪ **Are excess funds at the end of the fiscal year transferred into the investment portfolio?**

- *VP/CFO Eickhoff:* Cash flow into the investment portfolio is driven by cash balances rather than the accounting cycle. General revenues are maintained in a separate operations and maintenance (O&M) account. Once the cash balance in the O&M account reaches a certain level, excess cash is transferred into the custodial investment portfolio.
- *President/CEO Bewley:* Alternatively, excess O&M funds may be transferred for use in capital outlays or other projects that were not anticipated earlier in the year.

NEXT MEETING

- Wednesday, August 24, 2021 | 3:30 p.m. | Remote Participation via Webex

ADJOURN

There being no further business to discuss, Chair Penn adjourned the meeting at 2:25 p.m.

Prepared by:



Byron M. Jones, CMC, TAA Clerk

Date: August 25, 2021

ATTACHMENT ONE

Tucson Airport Authority

**FINANCE & RISK MANAGEMENT COUNCIL BRIEFING
PRESENTATION**



Finance & Risk Management Council Briefing

July 23, 2021

Airport Rates and Charges



- Requirements and restrictions for airport rates and charges
 - Self sustaining rate structure
 - Aeronautical – reasonable and not unjustly discriminatory
 - Non-aeronautical – Fair Market Value
 - Airport does not control airline fares, fees, routes or services

Airport Revenue



- Airport Revenue Must Be Used Only for Airport Purposes
 - Statutory
 - FAA Policy
 - Grant Assurances

Airport Revenue

- **Airport Revenue?**

- Fees, charges, and rent for use of the airport or airport properties
- Concession revenue – food and beverage, retail, rental cars
- Parking revenue
- Income from airport's own commercial activities
- Proceeds from sale of property

- **Airport Purposes?**

- Capital and operating costs of the airport or the airport system

Airport Revenue



- Airport Purposes – Permitted Uses
 - Capital Projects – development of airfield, terminal, access roads, etc.
 - Maintenance of airport facilities
 - Day-to-day operations
 - Airport-specific marketing

Revenue Diversion

Revenue diversion is the use of airport revenue for purposes not allowed by law

- Overpayment for goods and services
- General economic development efforts
- Air service subsidies
- General travel or community marketing
- Local government use or lease of airport property at below market rates
- Sales of airport property for less than FMV

Revenue Diversion

- **FAA monitors and investigates compliance with revenue use policies**
- **OIG may audit airport revenue use and diversion**
- **Airport users can file complaints with the FAA**
- **Potential penalties for unlawful revenue diversion include**
 - Loss of AIP grants (current and future)
 - Loss of authority to collect PFCs
 - Civil penalties

Airline Use Agreement (AUA)

Establishes fundamental business arrangement between airport and airlines

- Airline use of airport facilities
- Airport obligations
- Rates and charges
- Control of gates and facilities
- Control of capital program
- Risk and responsibility sharing

Airline Use Agreements

Two Major Business Models



Compensatory

- Airport takes financial risk
- Recover costs only from occupied facilities
- Airlines/Users pay only for what they use
- Airport keeps all non-airline revenue

Airline Use Agreements

Two Major Business Models

Residual

- Financial risk transferred to airlines
 - Recover net costs after credit of airport revenues
 - Landing Fee is calculated to cover difference between revenues and expenditures
- Signatory Airlines have approval rights for major capital improvements
 - Signatory vs. Non-Signatory Airlines
 - Majority-In-Interest (MII)

TAA Airline Use Agreement



TAA uses the **residual** model

- Original 30-year agreement entered into in 1976
- Significantly updated through amendments
 - Redefined airline space to ensure new airlines can be accommodated
 - Improved airline Majority-In-Interest (MII) provision
 - Enhanced TAA control and flexibility for capital program
 - Addition of Maintenance Reserve Fund

TAA Airline Use Agreement



A Few Unique Provisions

- Special Reserve Fund
 - Certain defined non-airline revenues are NOT credited to the airlines, but are reserved for TAA's use
 - Primary source is 52% of industrial area net revenues
 - Must be used for airport purposes
- Ryan Airfield expenses are included as part of the "airport system"

TAA Airline Use Agreement



Key Provisions – Landing Fee

- Landing Fees are the airlines' charge for using the airfield
- Landing Fees are calculated to cover the difference between expenditures and revenues
 - Revenues and expenditures are the cash inflows and outflows to the airport system as defined in the AUA
 - These consist of third-party inflows and outflows as well as required internal fund transfers
 - Landing fee capped through 9/30/2023

TAA Airline Use Agreement

Key Provisions – Landing Fee

- Annual airport system expenditure requirements are “charged” to the airport system
- Revenues are credited to the airport system
- Difference between expenditures and revenues equals the “Airport System Income Requirement”, or total Landing Fees required
- The Airport System Income Requirement divided by the total estimated landed weight = Landing Fee rate

TAA Airline Use Agreement

Outflows

- **Debt Service** (including 25% coverage), net of pledged PFCs
- **O&M Expenses** (Personnel, Contracted/Purchased Services, Expensed Major Maintenance, Materials/Supplies, Other)
- **Fund Replenishments/Transfers** (O&M Reserve Fund, Capital Improvement Fund, Special Reserve Fund, Maintenance Reserve Fund)
- **Capital Spending** (CIP, Capital Outlay, Capitalized Major Maintenance), net of grants and special funding sources

Minus: Inflows

- **Operating Revenues** (Airline Revenue other than landing fees, Fees and Rental Revenue, Concessions, Other)
- **Interest Income** (on airport system related funds only)
- **Airline Reserve Fund**

Equals: Airport System Requirement (or Total Landing Fees)

Result: Breakeven

Note: The most recent amendment to AUA includes landing fee rate cap. To the extent that funds are available, federal rescue dollars are being used to balance the Airport System Requirement.

TAA Airline Use Agreement



Landing Fee Reconciliation

- Revenues < Expenses
 - Signatory Airlines are billed and pay deficit (has happened one time over course of AUA)
- Revenues > Expenses
 - Excess rolls over to reduce subsequent year's landing fee rate OR
 - Deposited in Airline Reserve Fund
 - Airlines determine – have consistently chosen to reduce landing fee

TAA AUA and Budget



- Financial terms of the AUA provide the foundation for TAA's budget
 - Airlines provide estimates of landed weights
 - TAA estimates passenger levels and revenues
 - Expense and capital requirements prepared
 - Signatory airlines review the overall budget and approve capital program (if necessary)
 - Budget presented to Finance Council in August and to Board in September

Monthly Financial Reporting



- Focus is on comparison to budget although prior year is shown for information
- TAA has little control over revenues in the short-run
 - Mostly driven by long-term contracts, leases and passenger numbers
 - Lowering expenses and capital spending are typically the only ways to offset budgeted revenue shortfalls

ATTACHMENT TWO

Tucson Airport Authority

**FY 2021 3RD QUARTER INVESTMENT SUMMARY
PRESENTATION**



FY 2021 3rd Quarter Investment Summary

Finance and Risk Management Council

July 23, 2021

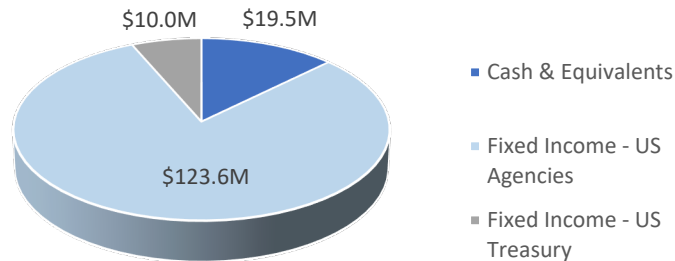
FY 2021 3rd Qtr Investment Summary

Key Points

- TAA holds cash and investments with Bank of New York
- Patterson & Associates is TAA's investment broker
- Investments options are limited by TAA policy and ARS § 35-323
- Cash balances can fluctuate based on maturity/call activity
- All investments are required to be held to maturity
- Maturities are laddered to ensure adequate liquidity to cover debt service and significant capital expenditures

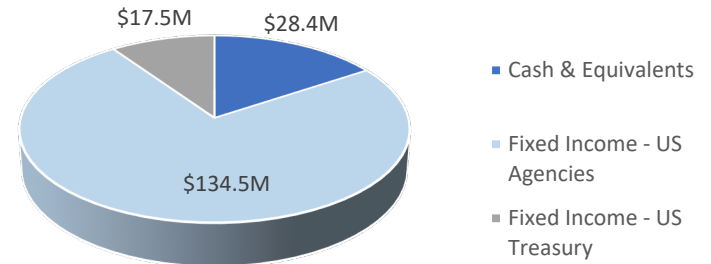
FY 2021 3rd Qtr Investment Summary

Investments at 6/30/2021



Total Value: \$153.1M
Non-cash YTM: 0.35%

Investments at 3/31/2021



Total Value: \$180.4M
Non-cash YTM: 0.29%

- In April 2021, TAA transferred \$27.2M out of the custodial fund to eliminate the public safety pension liability.
- TAA generally targets a cash balance of <\$6M in the custodial fund

FY 2021 3rd Qtr Investment Summary

Questions?

ATTACHMENT THREE

Tucson Airport Authority

**MAY 2021 YTD FINANCIAL HIGHLIGHTS
PRESENTATION**

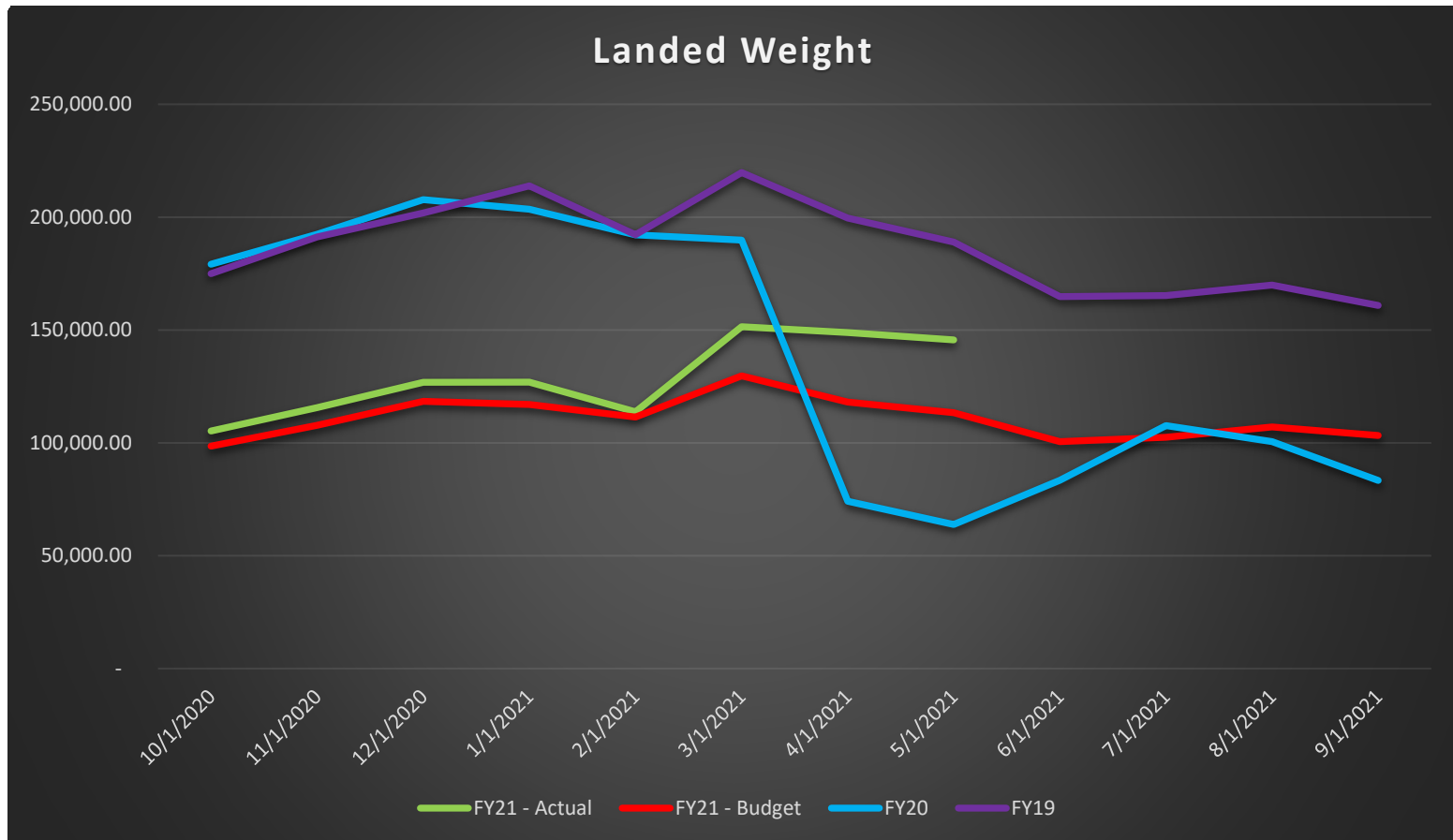


May 2021 YTD Financial Highlights

Finance and Risk Management Council

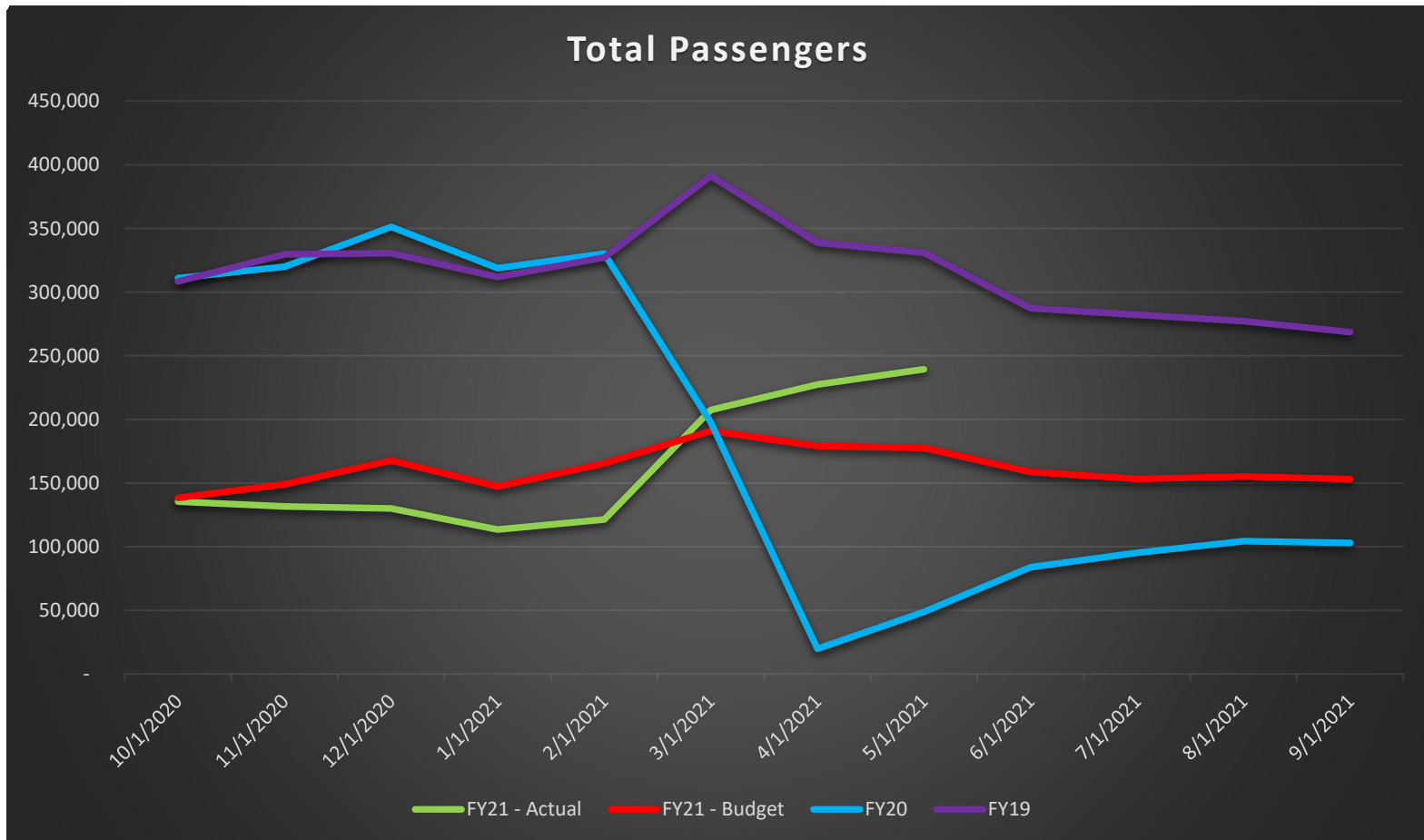
July 23, 2021

May 2021 YTD Operating Statistics



- May Landed Weight is 28.4% greater than budget and 23.0% lower than FY2019
- YTD Landed Weight is 13.1% greater than budget and 34.6% lower than FY2019

May 2021 YTD Operating Statistics



- May Passengers are 34.9% greater than budget and 27.7% lower than FY2019
- YTD Passengers are 0.7% below budget and 51.0% lower than FY2019

May 2021 Flight & Passenger Activity

<u>Month</u>	<u>FY2021</u>	<u>FY2020</u>	<u>FY2019</u>
Total Passengers	239,416	48,761	330,927
Average Load Factor	89.4%	46.0%	89.3%
Average Daily Departures	40.1	17.8	54.5
Average Daily Seat Capacity	139,743	55,979	194,054
 <u>Eight Months Year-To-Date</u>			
Total Passengers	1,306,164	1,897,326	2,668,305
Average Load Factor	66.6%	70.1%	83.5%
Average Daily Seat Capacity	4,061	5,550	6,614

May 2021 Financial Results

(\$ Millions)

<u>Month</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual vs. Budget</u>		<u>Prior Year</u>	<u>Current vs. Prior Year</u>	
Operating Revenues	3.5	2.7	0.8	29.6%	2.3	1.2	52.2%
Operating Expenses	2.5	2.7	0.2	7.4%	2.6	0.1	3.8%
Operating Income (Loss)	1.0	-	1.0		(0.3)	1.3	

Eight Months Year-To-Date

Operating Revenues	22.9	20.8	2.1	10.1%	28.0	(5.1)	-18.2%
Operating Expenses	21.3	22.8	1.5	6.6%	21.5	0.2	0.9%
Operating Income	1.6	(2.0)	3.6		6.5	(4.9)	

May 2021 YTD Revenue vs Historical

(\$ Millions)

<u>Month</u>	FY2021		<u>FY2020</u>	<u>FY2019</u>
	<u>Actual</u>	<u>Budget</u>		
Revenue From Signatory Airlines	\$ 7.4	\$ 7.3	\$ 9.1	\$ 9.5
Land and Space (not including SAs)	5.8	5.6	6.3	6.4
Concessions	7.0	6.0	9.7	12.9
Other	2.7	1.9	2.9	2.9
Total	\$ 22.9	\$ 20.8	\$ 28.0	\$ 31.7

May 2021 Financial Highlights

Questions?