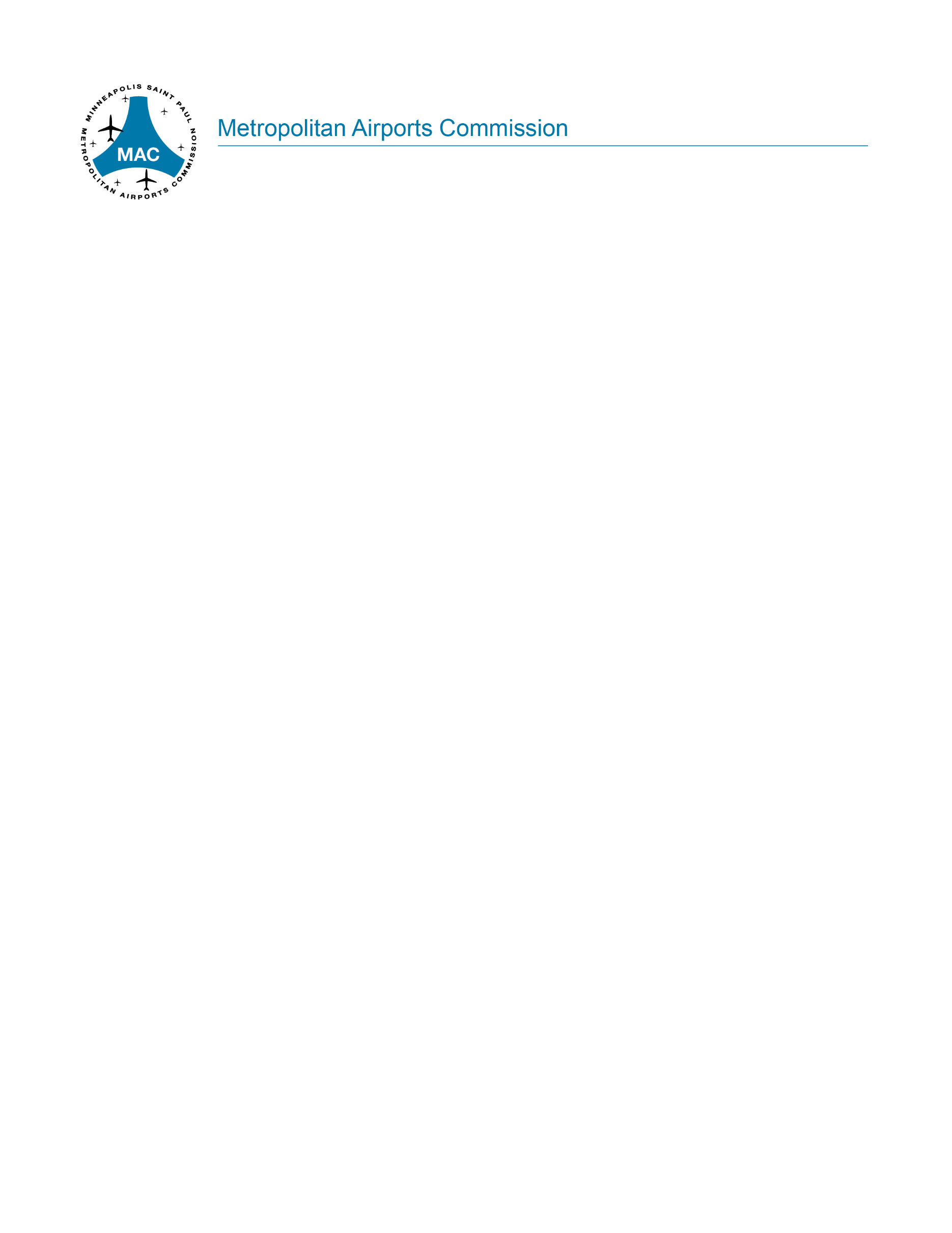
****

TO: Operations, Finance and Administration Committee

FROM: Kathy Fisher, Manager - Budget (612-726-8158)

SUBJECT: **Budget Variance Report – Preliminary December 2021**

DATE: March 2, 2022

**FOR INFORMATION**

**Summary**

The Metropolitan Airports Commission (MAC) Commission Bylaws and Rules of Procedure indicate that staff would provide monthly Variance Reports to the Operations, Finance and Administration Committee for review/ratification.

**Report**

The Preliminary December 2021 Operating Budget Variance Report is attached which summarizes year-to-date revenue and expenses and variances from budgeted amounts. Final ratification of the December Operating Budget Variance Report will be requested at the May Operations, Finance and Administration Committee.



**OPERATING REVENUE**

Total operating revenue for December 2021 year-to-date is under budget $24,672,864 or 7.4%. The explanations for these variances are presented below.

***Airline Rates & Charges***

The revenue from Airline Rates & Charges is below budget $13,519,276 or 10.3% as a result of the following:

***Landing Fees***

Landing Fees are lower than budget $4,062,244 or 5.6%. Flight operations were lower than expected because of the COVID-19 pandemic. Airlines were provided with MAC approved COVID relief on landing fees. In addition, costs were below budget which also lowered landing fees.

***Terminal 1 Rentals***

Terminal 1 Rental Fees are below budget $6,932,832 or 17.2%. Terminal rental relief was provided to the airlines through the COVID-19 relief program approved by the MAC. Airlines were given the option to take the available terminal rental credit in years 2020 through 2022. Terminal rental relief credits totaling $6,603,927 have been applied in 2021.

***Terminal 1 Other Rentals***

Terminal 1 Other Rental Fees are lower than budget $1,067,445 or 11.9%. The variance is due to lower International Arrival Facility operating costs related to reduced passenger levels from the COVID-19 pandemic.

***Terminal 2 Lobby Fees***

Revenue from Terminal 2 Lobby Fees is under budget $1,059,836 or 10.6%. Terminal rental relief was also provided to the airlines at Terminal 2 through the COVID-19 relief program approved by the MAC. Airlines were given the option to take the available terminal rental credit in years 2020 through 2022. Terminal rental relief credits totaling $1,149,646 have been applied in 2021.

***Concessions***

Concessions revenue is $9,626,527 or 7.3% below budget as a result of the following:

***Food & Beverage***

Revenue from Food & Beverage concessions is under budget $1,248,027 or 7.3% due to fewer enplanements than the budget projected and lower consumer spending.

***News***

News concessions revenue is higher than budget $547,311 or 15.5%. More customers purchased snacks and beverages to bring on flights as food sales were discontinued on many flights as a result of the pandemic.

***Retail Stores***

Revenue from Retail Stores is under budget $1,011,627 or 27.0%. Retail sales were lower than projected in the budget which is the result of lower spending per enplanement.

***Passenger Services***

After the budget was approved, minimum annual guarantee (MAG) relief was provided to certain passenger service companies as authorized by the MAC’s COVID-19 relief program. As a result, revenue from Passenger Services is below budget $821,665 or 14.6%.

***Parking***

Parking revenue is under budget $2,320,958 or 3.3%. With passenger counts lower than projections, parking revenue is also below budget.

***Ground Transportation Fees***

Ground Transportation Fees are below budget $1,653,662 or 17.0%. These fees are activity-based by carrying passengers to and from the airport. This variance is mainly due to less Transportation Network Companies (TNC) activity than projected in the budget and is also affected by fewer taxi and commercial vehicle trips. Offsetting this variance are off-airport auto rental fees that are over budget by $672,338.

***Auto Rental-On Airport***

For Auto Rental-On Airport, the budget expected rent as the greater of MAG or 10% of sales. After the budget was approved, rent relief was provided as authorized by the MAC’s COVID-19 relief program in the form of no guaranteed rent and only 10% of sales for January through June, and rent equal to the greater of 60% of guaranteed rent or 10% of sales for July through December. This results in Auto Rental-On Airport revenue to be lower than budget $3,079,059 or 16.0%.

***Rentals/Fees***

Revenue from Rentals/Fees is $1,230,631 or 2.4% below budget as explained below.

***Auto Rental CFCs***

Auto Rental Customer Facility Charges (CFCs) are $2,456,089 or 15.9% below budget. This variance results from customers on average renting cars for fewer number of days than projected in the CFC revenue budget.

***Reliever Airports***

Revenue from Reliever Airports is over budget $1,341,685 or 15.6%. Several new commercial and storage lots were leased that increased ground rent revenue. The growth in activity also brought in additional activity-based revenue.

***Utilities and Other Revenue***

Utilities and Other Revenue are under budget $296,430 or 1.6% for the following reasons.

***Utilities***

Utilities are $618,575 or 12.4% over budget. Ground power is over budget $1,058,257. This revenue source was recalculated for proper allocation which caused it to be over budget. Offsetting Ground Power revenue is water, sewer and concession utilities revenue which are lower than budget $439,681 as MSP received fewer passengers than projected. Also, a number of concession stores did not open as soon as expected.

***GA/Airside Fees***

GA/Airside Fees are over budget $701,765 or 15.0%. General aviation is higher than budget $213,697 as executive and private aircraft traffic was greater than anticipated. Airside Fees are over budget $465,151 as airlines added back airside services at a higher rate than expected.

***Other Revenues***

Other Revenues are below budget $411,160 or 17.3%. Building permits are under budget $398,188 as construction slowed down because of the prolonged pandemic. Badging revenue is $176,378 lower than expected due to the temporarily closed concessions. Other miscellaneous revenues are slightly over budget and offset this variance.

***Reimbursed Expense***

Reimbursed Expense is lower than budget $1,265,561 or 35.1%. Reliever Airports expected State Airport Maintenance and Operation Reimbursement Grants in 2021. These grants were not received; they are now expected in 2022.

**OPERATING EXPENSE**

Total operating expense for December 2021 year-to-date is under budget $7,570,427 or 3.9%. The explanations for these variances are presented below.

***Personnel***

Personnel is under budget $2,480,985 or 2.6% mainly for the following reasons:

* Wages are below budget $1,493,166 or 1.6%. Only critically necessary positions were filled in 2021 resulting in personnel savings.
* The supplemental Other Post-Employment Benefits trust expenses are under budget $876,000. Based on the current trust funding level, the MAC’s actuarial consultant recommended reducing MAC’s contribution.
* Pension costs are $127,063 under budget because hiring was limited to only critical positions.

***Administrative Expenses***

Administrative Expenses are lower than budget $297,360 or 22.0%. Travel was limited to essential travel only causing these expenses to be under budget $136,913. The remaining variance is from other miscellaneous administrative expenses that are also below budget.

***Professional Services***

Professional Services are under budget $631,025 or 10.0%. The areas with the greatest variances are as follows:

* Appraisals are under budget $130,875 as a land assessment project was postponed until 2022 as a cost savings measure.
* Computer services are over budget $278,153. Certain services required Professional Service Authorizations so the expenses were moved to Professional Services.
* Outside attorney consulting was not needed to the extent expected causing Legal Fees to be below budget $249,077.
* Funds were budgeted for strategic priority marketing but were not spent causing Public Information Services to be lower than budget $148,200.
* Deferred marketing for public parking along with being prudent on campaign spend when collaborating with internal clients caused Strategic Planning to be under budget $147,230.
* Other miscellaneous professional services make up the remaining variance.

***Utilities***

Utility expenses are under budget $1,350,702 or 6.8%. Electricity is under budget $407,814. Heating fuel is lower than budget $318,579. Water usage and sewer are below budget $609,477. The decreases in utility expenses arise from the low enplaned passenger level and temporarily closed concessions due to the slow pandemic recovery.

***Operating Services/Expenses***

Operating Services/Expenses are under budget $1,904,987 or 6.9%. The main factors are explained below.

* Security Services and Employee Screening staff were scheduled at pre-pandemic levels. Staffing was later reduced based on lower enplanements causing a below budget variance of $429,670 for Security Services and below budget variance of $315,939 for Employee Screening.
* Parking management expenses were reduced as a cost savings measure during the pandemic recovery and are under budget $611,331.
* Service agreements are under budget $1,011,845. Due to changes in the agreements, these costs are lower than expected in the budget.
* Expenses for the vaccination clinics located at MSP and weekly staff COVID-19 testing is causing an over budget variance of $784,848.
* Porter and Queue Line services are lower than budget $273,900 as passenger traffic is lower than projected in the budget.

***Maintenance***

Maintenance expenses are under budget $1,317,631 or 3.2%. Causing this variance are the following reductions in costs:

* The Trades departments spent $418,294 less on tools and supplies than projected in the budget.
* Maintenance for the automated people movers is under budget $573,210 from the slow pandemic recovery and continued closed areas in the terminal.
* Cleaning is slightly lower than expected in the budget causing a variance of $138,806.

***Other***

Other Expenses are under budget $575,556 or 15.8%. The main variances are explained below.

* General insurance is over budget $993,369. Market factors drove property insurance rates higher than projected and Terminal 1 and Terminal 2 were appraised at a higher property value.
* Airline incentives are under budget $1,370,187. An incentive for air service to Seoul was budgeted. This service did not restart in 2021 so no incentive payment was required.
* Minor equipment is under budget $99,054. Computers, radios, tools and furniture were only purchased when necessary to save costs during the slow pandemic recovery.

**NON-OPERATING REVENUE (EXPENSE)**

Total non-operating expense for December 2021 year-to-date is lower than budget $73,886,528 or 65.2%. The following factors are creating this variance.

***Other Non-Operating Revenue***

Other Non-Operating Revenue is lower than budget $2,593,505 or 31.7%. An increase in interest rates caused the market value of MAC’s portfolio to fall which in turn decreased the interest earnings on investments. Since the MAC typically holds investments to maturity, these fluctuations in value are temporary unless the investment is sold. The stated coupon rate is still received.

***Debt Service***

Debt Service is lower than budget $1,713,163 or 1.5%. The interest rate was lower than projected with the new short term borrowing­­­­­­­­­­­­­­­­­­­­­­­­­ program.

***Equipment***

Equipment purchases were higher than expected resulting in this category being over budget $687,968 or 7.3%. Equipment purchases and Information Technology projects can span more than one year as they are recorded upon delivery or upon completion of the project causing actual expenses to be higher than budget.

***Other***

Other non-operating revenue is over budget $75,454,838. The Federal Aviation Administration (FAA) reimbursed Coronavirus Aid, Relief, and Economic Security (CARES) Act funds as economic relief to eligible US airports affected by the prevention of, preparation for, and response to the COVID-19 pandemic. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSSA) is another federal grant which provides additional relief in the transit industry to respond to COVID-19. Additionally, the American Rescue Plan Act (ARPA) is a third federal grant approved in 2021 also to support US airports in preventing and responding to the effects of the COVID-19 pandemic. The MAC applied for reimbursements in the amount of $77,467,688 from these federal grants in 2021.

The MAC also received a $1.0 million insurance claim advance to rebuild the boarding bridges damaged from strong winds in 2021. This amount is offset by costs related to the commercial vehicle canopy fire in 2020 which is expected to be reimbursed by insurance.

**Net Revenues Available for Designation** total $80,344,103.