RALEIGH-DURHAM AIRPORT AUTHORITY
BUDGET WORK SESSION
MINUTES
March 15, 2012

Chairman Teer presided. Present: members Elting; Frazier; Hunt; Lipscomb; Sanders; Weeks and Yeargan. Also present: Airport Director Brantley; Deputy Airport Director, Operations McElvaney; Deputy Airport Director, Finance, Business & Administration Styres; Deputy Airport Director, Facilities Engineering & Maintenance Pittman; Major Capital Improvements Program Director Powell; Deputy Airport Director, Information Services Posner; Marketing, Customer Service & Organizational Support Director Damiano; Terminal Services Director Scialdone; Parking Director Weiss; Administration Director Umphrey; Finance Director Barritt; Marketing Communications Manager Hamlin; Law Enforcement Manager Waters; Properties & Insurance Officer Reynolds; Emergency Services Manager Thompson; Senior Program Manager Edmondson; Senior Program Manager Quesenberry; Program Manager Cayton; Operations Manager Graves; Audit Manager Wynn; Platoon Commander Midgett; Employee Development Supervisor Bell; Business Development Officer Hairston; Shift Commander Ragsdale; Financial Reporting Analyst Lynch; Financial Analyst Golden; Accountant Sams; Marketing Communications Specialist Sawyer; Executive Assistant Mitchell; Staff Attorney Locklear and Attorney Tatum.

Guests: Thomas Bradshaw, Morgan Stanley Smith Barney and Vick Moore, Moore & Johnson Agency.

Chairman Teer opened a Public Hearing on the drafts of the proposed FY 2012-13 Operating and Capital Budgets. No one asked to speak. Therefore, the hearing was closed.

Airport Director Landguth opened the presentation of the proposed FY 2012-13 budgets. The Operating Budget is an annual budget under which the authorization for expenditures expires at the end of the fiscal year and does not carry over into the succeeding year. Project budgets in the Capital Budget are cumulative budgets that do not expire but carry over from year to year as long as the project is authorized. They may be increased or decreased (so long as the funds actually spent or encumbered are less than or equal to the budget) at any time. A collaborative approach to budget development was utilized this fiscal year driven by senior staff collectively working with the Airport Director and the Finance Department, in parallel with development of the Authority's goals and objectives for the year ahead.

These budgets continue RDU's commitment to maintain a fiscally sound airport with a low airline cost structures. The Authority continues to cost its services to air carriers at about ¾ the medium hub average per the most recent Airport Council International's survey data. Air carrier rates for landing fees and security charges for the new fiscal year are lower than the current year's rates while Terminal Fixed rental rates remained the same.

The Authority's annual operating and capital budgets are reviewed in a Board work session and subsequently approved at the regular meeting annually in March for the upcoming fiscal year that begins on April 1. Operating Budget approval is at the total operating expense level. The Authority Operating Budget is a single enterprise fund. Subsequent individual expenses against budget are subject to the Authority's Purchasing Policy, HUB policy, and other process and system controls including transaction signature authority limits, and finance officer review.

The Authority will continue to maintain its cash reserve policy to set aside and reserve an operating cash reserve of one times the current fiscal year's annual Operating Budgeted Expenses (excluding depreciation). For FY 2012-13, this cash reserve was maintained at the policy cap of $50 million. Authority policy requires that his reserve not be expended, encumbered, or budgeted for any purpose in executing Authority fiscal policy without Board approval and notification of the bond rating agencies that maintain bond ratings for the Authority.

Finance Director Barritt reported the FY 2012-13 budgeted operating revenues of the Authority have been increased by 5.0% ($4.5 million) over those budgeted for FY 2011-12. About 90% of the increase in budgeted revenue for FY 12-13 is derived from the daily parking rate increase ($12 from $10) which became effective in mid-January 2012.The balance of this overall increase in revenue relates to Terminal 2 revenues. Primarily, the result of concession generated revenue performing above expectations.

Many of the Authority revenue sources correlate to the number of passengers utilizing the airport. Parking, Rental Car, and Terminal concession revenue rise and fall based on passenger volume. Fixed rents and Airfield revenue are examples of revenue which do not typically change given passenger activity levels. For those revenue sources that do fluctuate with passenger volume, we have conservatively based our revenue forecasts for FY12-13 on expected (enplaned) passenger volume, which we have estimated to be 4.55 million, down 1% from where we expect to finish the FY March 31, 2012, or 4.6 million enplaned passengers.

Finance Director Barritt also reported the FY 2012-13 budgeted operating expenses of the Authority excluding depreciation have increased by $2.3 million (4.8%) over those over those budgeted for FY 2011-12. Spend increases may be driven by numerous factors, including (1) a targeted investment decision, (2) an externally imposed market price change, (3) a simple volume increase, (4) or a change in business circumstances. For example, (1) a strategic investment decision to invest in our employees' skill development, after a rigorous review of each individual and department proposal, resulted in an increase of 33% for the combined professional development and individual development plan (IDP) accounts, (2) a 31% increase in fuel budget related directly to the run-up in petroleum product prices, not a result of increased fleet size or consumption on the Authority's part, (3) credit card processing fees up almost 14% as a direct result of increased Parking revenues, and (4) certain increases in Repair & Maintenance contracts due to building components coming off warranty in our new Terminal 2. For FY 12-13, budgeted operating cash flows are projected to increase by 15%, ($2.9M), over the FY 11-12 budget. Overall positive operating cash flows are projected at approximately $22.3M.

For FY 12-13 the Authority will draw into its fund balance to fund the capital cash requirement due to the Terminal 1 Project. Of the $32 million (net of grants) capital cash flow required by the FY 12-13 Capital Budget, $18.6 million is for the Terminal 1 Project. An additional $2.7M of Authority funds will be used to close-out the Terminal 2 capital project. This is in accordance with our 2010 financial feasibility plan, as the Terminal 1 Project was modeled to be funded entirely with Authority funds including the significant use of fund balance. The rating agencies used by the Authority have reviewed this financial plan and in late 2011 have affirmed our industry-exceptional AA-/Aa3 bond ratings (Fitch and Moody's respectively) with stable outlooks. The Authority considers maintaining these ratings a strategic priority.

Finance Director Barritt summarized the Budget Ordinance (whose enactment is required by the Local Government Commission) and the Project Ordinances that accompany the Capital Budget. He also briefly reviewed the Cash Flow schedule related to the Capital Budget, the calculations of Landing Fees and Terminal Rents, and the schedule of rates, fees and charges that are proposed for implementation effective April 1, 2012.

The draft FY 2011-12 Operating and Capital Budgets, Budget Ordinance and Project Ordinances will be presented to the Authority for consideration of adoption at the upcoming meeting on March 24, 2011.

There being nothing further to come before the meeting, Chairman Teer adjourned the Budget Work Session.

Respectfully submitted,

Geoff Elting, Acting Secretary

CORRECT ATTEST:

Terry K. Yeargan, Chairman