July 15, 2020

The Honorable Julie R. Culver
Presiding Judge
Monterey County Superior Court
240 Church Street
Salinas, CA 93901

Re: Monterey Peninsula Airport District’s Response to 2019-2020 Monterey County Civil Grand Jury Report

Dear Judge Culver:

Pursuant to Penal Code section 933, subsection (c), et seq., the Monterey Peninsula Airport District, which operates the Monterey Regional Airport (collectively referred to as “MPAD”), has reviewed the 2019-2020 Monterey County Civil Grand Jury Final Report (“Final Report”) regarding the Airport Master Plan (“AMP”) and the funding of proposed capital projects listed in the Master Plan’s Capital Improvement Plan (“CIP”). The MPAD would like to thank the Grand Jury members for their effort and dedication in researching the issues and in preparing the annual report.

In preparing this response, information and input was obtained from various sources regarding each finding and recommendation, including several staff members, whose information and input is incorporated in the responses. In response to the Final Report released June 2, 2020, the MPAD Board of Directors unanimously approved the following response in a public session of its duly noticed meeting held on July 15, 2020.

At the outset, the MPAD Board of Directors notes that the grand jury primarily focused its concerns on the capital funding plans for the proposed new airport terminal that could result in an alleged undisclosed future tax burden on citizens of the Airport District or the County.

The MPAD desires to address that important and just concern by stating to the Grand Jury and the public that the MPAD has no legal authority to issue debt backed by general or special tax revenues. Further, the District has never contemplated seeking such taxing authority as a means of financing any aspect of the MPAD's AMP.

If the proposed projects proceed as planned, there will not be any financial impact on the residents of the District or the County. All capital costs will be funded by federal grants and debt instruments supported by internally generated airport funds.

FINDINGS

F1. Enplanements for the years 2014-2018 have consistently fallen short of the estimates used in the 2015 AMP. This has resulted in a calculated shortfall of $100,000 to nearly $200,000 each year in available AIP grant funding, with similar shortfalls in available PFC’s.
Response: Agree in part; Disagree in part.

The enplanement forecast in the AMP is a federal mandate that is required as part of the overall FAA process. The AMP numbers are not intended to be used, and are not used, for any debt service calculations.

The MPAD agrees that the annual enplanement totals have not aligned with the forecast in the 2015 AMP. However, the Grand Jury statement incorrectly assumes that the AMP forecast will be used throughout the financing process for any new capital project. New forecasts are required for any debt financing process related to a capital project. At the time that the financing is contemplated, a new and standalone financial analysis will be conducted to determine the level of debt that can be supported by PFC revenues at the time the actual lending will occur.

It is important to note that MPAD has affirmatively and consistently maintained the position that no capital project contained within the AMP program will be undertaken unless and until all funding sources have been identified and secured.

F2. Even without the funding shortfall noted in F1, sources of funding for the $62 million or more in local share costs have not been identified. As stated in the AMP, these funds are primarily for the construction of the new passenger terminal building. This was concerning to the Civil Grand Jury because the Board has not effectively communicated to the taxpayers that this large funding gap looms, and the taxpayers within MPAD are likely not aware that the solution to the unfunded portion may include additional taxes.

Response: Agree in part; Disagree in part.

While the MPAD agrees that complete funding sources will need to be identified for all components of the AMP program, the MPAD continues to maintain that no capital project exhibited as part of the AMP program will be approved by the Board or undertaken until and unless all funding sources have been identified and considered. It is important to note that the MPAD enabling legislation does not authorize parcel tax increases or the issuance of taxpayer secured debt to pay for airport district operations or capital projects.

As the Grand Jury highlighted in their report, in 2019 the MPAD retained the services of a very qualified and respected financial planning consultant and has begun the process of developing its financial plan for each component of the overall CIP program. As the results of the financial planning efforts become known to the MPAD, that information will be shared with the Board of Directors and the general public through the traditional and required public processes and forums including properly noticed public Board Meetings and the publicly available website of the MPAD at www.montereyairport.com.

Any debt, if issued by the MPAD to fund capital projects, would be securitized with current MPAD revenues, such as Passenger Facility Charges ("PFCs") or Customer Facility Charges ("CFCs"). The risk associated with PFC or CFC backed facility bonds is first borne by the general revenues of the MPAD, and then by the bondholders. At no time, and under no
circumstances, would the risk of these types of revenue bonds be shouldered by the taxpayers living within the jurisdiction of the MPAD.

F3. The number of enplanements has been inconsistently reported in MPAD’s financial statement package. This is a critical financial metric used to forecast available AIP grant funding available and should be as clear and accurate as possible for the public, especially those who live within the boundaries of the MPAD.

Response: Disagree.

The manner in which the MPAD reports enplanement numbers in prepared financial packages is consistent with Generally Accepted Accounting Principles (“GAAP”), as required during the audit process. It is important to note that there has always been, and will continue to be, discrepancies between the passenger data as reported by the MPAD and the passenger data that the airlines report to the Department of Transportation (“DOT”). The MPAD receives revenue and nonrevenue generating enplanement/deplanement data directly from the airlines monthly in mixed formats which are then summarized in various reports. The DOT, through their regulatory reporting requirements, has a much broader view of passenger activity. The FAA utilizes the DOT data to calculate AIP grant funding opportunities. Annually, the MPAD is provided with an Enplanement report prepared by DOT, rather than by the air carriers. The MPAD is afforded the opportunity to compare and comment on any discrepancy between the information provided in the annual DOT report and the information received monthly from the local airlines.

Any material discrepancy in the various reports, whether timing related or report related, is reconciled annually in the required financial audit of the MPAD’s financial affairs. The MPAD is confident the data reported is as clear and accurate as possible and is consistent with all industry accepted practices and GAAP requirements.

RECOMMENDATIONS

R1. Within the scope of the contract recently executed for advice on funding sources for the “Local Share” of the project, a complete re-forecast of enplanements (and resulting PFC and FAA grant money) should be done, so that the total remaining unfunded local share amount is as accurate as possible. (F1 & F2).

Response: Will be implemented.

As indicated above, the forecast that will be used as part of the MPAD’s discussions with the financial market will be generated independent of the forecast contained within the AMP. It is very important to the MPAD that the forecast used be as reflective as possible of current conditions, as well as an accurate predictor of future conditions. This is not only proper financial management, but the updated forecast will be required by the financial markets as part of any PFC or CFC backed revenue instruments.
R2. Communicate immediately with the residents of MPAD about the potential implications of the shortfall in grant funding available for the Terminal Building Project. (F2).

Response: Will be implemented.

The findings of the financial analysis will be reported to the Board of Directors and the public at one or more properly noticed public meetings and will be part of the ongoing information that is shared with the Board of Directors and the public.

No decisions will be made by the MPAD Board of Directors regarding proceeding with the Airport Terminal Project without a thorough assessment and understanding of all aspects of the associated funding requirements and the sources. That information, as always, will be shared with the Board of Directors and members of the public through publicly accessible portals, such as the Airport website at www.montereyairport.com.

R3. As soon as they become available, share the results of the contracted inquiry into available funding sources for the local share amounts with the taxpayers. (F2).

Response: Will be implemented.

All financial planning information will be shared with the Board of Directors and the public through publicly accessible portals, such as the Airport website at www.montereyairport.com. In addition, members of the public are invited to and are welcome to attend the meetings of the MPAD Board of Directors where this information will be discussed.

R4. Revise the table (or alternatively add a separate table) in the Management Discussion section of future annual financial statements to include strictly revenue-passenger enplanements since that (rather than total enplanements) is the metric used by the FAA in determining available AIP funding and PFCs. (F3).

Response: Will not be implemented.

The MPAD follows and maintains compliance with all Generally Accepted Accounting Principles and Government Account Standards Board reporting standards. In addition, the MPAD follows airport industry established best reporting practices. This format and practice is nationally utilized by other U.S. commercial airports and is authorized and accepted by FAA.

Respectfully submitted,

Monterey Peninsula Airport District

Mary Ann Leffel
Chair of the Board of Directors