



# long beach airport

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**Date:** December 21, 2020

**To:** Thomas B. Modica, City Manager *T.M.*

**From:** Cynthia Guidry, Director, Long Beach Airport *C.G.*

**For:** Mayor and Members of the City Council

**Subject: Long Beach Airport Status Update**

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Since the onset of the Coronavirus (COVID-19) pandemic in March 2020, both leisure and business travel have significantly declined, adversely impacting the global travel industry. Currently, commercial airline activity is approximately 40 percent of 2019 activity levels nationwide, and a multi-year recovery period is expected. The Long Beach Airport Department (Airport) remains committed to preserving its financial position through the pandemic and adapting to a post-COVID world, while providing a safe environment for travelers and employees. This memorandum provides an update of COVID-19 impacts to Airport operations and its capital program, including Phase II of Airport Terminal Area Improvements.

## Impacts of COVID-19

Airports are part of the nation's transportation infrastructure network, providing valuable services, jobs, and economic vitality to its local and regional communities. Although airports remain open as essential facilities, the pandemic is reshaping the aviation industry and significant operational business decisions are occurring. The pandemic brought air travel to a near standstill as passenger activity dropped by over 95 percent, with numerous flight cancellations among all air carriers and some suspending their operations indefinitely at the Airport.

Over two-thirds of the Airport's revenue is dependent on passenger activity. The significant decline in passenger activity severely impacted Airport revenues. Along with the decreases in revenues from airline activity, revenues from vehicle parking, car rentals, and concession sales also decreased proportionately. In the second quarter of 2020, Airport operating revenue dropped more than \$9 million compared to budgeted amounts. Currently, Airport commercial activity is only 20 percent of 2019 activity levels, while general aviation is returning at a quicker pace.

The Airport is also experiencing the loss of two major longstanding tenants. JetBlue Airways, the dominant air carrier for the past two decades, ended its operations in October 2020, and Gulfstream Aerospace, the largest aeronautical manufacturer, announced its plan to cease operations by the end of 2021. The result of this year's slot reallocation process was the award of the 17 available slots to Southwest Airlines,

which is now the dominant carrier, and an indication of the Airport's continued attractiveness as an airport of choice. In addition, there is growing interest from aeronautical and aerospace companies in the availability and leasing of the Gulfstream leasehold.

Throughout this pandemic, the Airport, the City's Financial Management Department, and financial consultant, Frasca & Associates, have been meeting to monitor and adapt forecasts and develop cost-saving scenarios and mitigation plans for the Airport as circumstances change. These ongoing status meetings help provide options that reduce risk and best position the Airport for success.

### **Response to COVID-19**

The safety of travelers and employees has always been a priority and a focus for the Airport. To address COVID-19, the Airport installed plexiglass at all points of interaction for the protection of both travelers and employees. Multiple hand-sanitizing stations were installed, and signs and markings were placed throughout the Airport to promote social distancing and the wearing of masks. The purchase of new sanitizing equipment and added safety procedures also enhanced the existing cleaning protocols at the Airport. These safety measures, along with stakeholder input and a clear communication plan, reinforced the Airport's commitment to providing a safe travel environment.

To address the decrease in operating revenues, the Airport implemented operating reductions, pausing discretionary spending and deferring non-critical maintenance and repair work. Airport capital projects were also evaluated for potential cashflow savings and deferment. The development of the fiscal year 2021 budget focused on cost containment and over \$6.3 million was reduced from the Airport operating budget. The Airport also intensified its program management and controls of all capital and major maintenance projects, instituting greater oversight of expenditures.

Working closely with its airline partners, the Airport identified and provided additional aircraft parking spaces and temporarily suspended flight slot utilization requirements. Although the moratorium on flight slot utilization was extended through March 2021, flights continue to be conducted and flight schedules have increased by over 40 percent for the upcoming winter season; an indication of the dedication from airlines to serve those that travel out of the Long Beach Airport.

In May 2020, the City Council authorized the Airport to work with its tenants on a case-by-case basis to address COVID-19-related impacts and negotiate rent deferments or other accommodations, in accordance with Federal Aviation Administration (FAA) grant assurances and other applicable aviation regulations. As a result, an Airport tenant assistance program was implemented and is appreciated by participating tenants who were provided tailored assistance options. Airport staff remain in communication with tenants to address any further needs, as the effects of the pandemic continue. Airport concessionaires also received similar relief in the form of

waivers of their minimum annual guarantee payments to the Airport for the critical months of the pandemic. All Airport concessionaires remain in operation at the Airport, albeit at reduced levels.

### **Recovery**

In May 2020, the Airport received an \$18.4 million grant through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act grant indirectly offset Airport revenue losses by providing funds to cover operating expenses and debt obligations during the pandemic. The Airport has nearly expended the much-needed grant, which has helped the Airport remain operational and preserved its liquidity. A second round of federal relief funds for the aviation industry is under consideration, but to date has not materialized.

Monthly passenger traffic has been on an upward trend since bottoming out in April 2020. Flight schedules have slowly increased each month, as airlines began restoring flights and travel demand returns. Delta Air Lines, which suspended its flights in April 2020, returned in September 2020 and was expected to increase its schedule during the holiday season. Similarly, Hawaiian Airlines, which had also suspended operations earlier this year, resumed its Honolulu flight in December 2020 and announced new nonstop service to Maui beginning March 2021. American Airlines maintained a consistent schedule throughout most of the pandemic. Southwest, which accounted for more than half of the activity during the pandemic, continues to ramp up its operations following the reallocation of flight slots and is poised to lead the recovery at the Airport by holding two-thirds of flight slots. Southwest recently announced Long Beach as their first direct service to Hawaii from the Los Angeles Basin, and is adding five new nonstop destinations beginning March 2021 that will significantly enhance nationwide connections to and from the Long Beach Airport.

### **Airport Capital Program**

As a result of the cashflow impacts during the pandemic, the Airport re-evaluated its capital program and focused on minimizing cash outflows during the critical months of the pandemic. Non-essential capital improvement projects were deferred or descoped for improved cashflow results. The Airport has prioritized grant-funded projects to maintain critical infrastructure. Airfield projects funded by FAA Airport Improvement Program (AIP) grants have remained as scheduled. These projects are largely funded by federal grants and require a 10 percent match from local sources. With supplemental funding from the CARES Act, AIP grants received for the Airport's \$8.4 million Taxiway B construction project, and \$24.5 million of the Airport's Taxiway L project are fully-funded by federal funds. These projects provide critical improvements to the Airport's airfield infrastructure and enhance the safety and efficiency of aircraft operations.

## **Phase II of Airport Terminal Area Improvement Program**

Phase II of the Terminal Area Improvement Program (Phase II) continues as a priority program, comprised of six projects that will enhance the safety and efficiency of passenger processing at the Airport, with a total program cost of approximately \$110.2 million. The pandemic and its dramatic impact on traffic and Airport finances has required some adjustments to be made and has put the completion of the program at some risk.

Prior to the pandemic, the Airport was preparing to issue debt to help fund the construction of the new Checked Baggage Inspection System (CBIS) Facility and the Ticketing Lobby projects of Phase II. However, the pandemic began before the issuance was finalized, and debt financing transactions were put on hold. Since then, the Airport has re-evaluated its capital program and developed new funding options for the CBIS Facility and Ticketing Lobby. Cash flow due to lower Airport revenue poses risks to the Airport's financial status and needs to be evaluated before making additional major commitments.

The Airport has taken steps to ensure that Phase II can continue as much as financially feasible. It has also mitigated as much risk as possible, while continuing to move forward with construction. As presented to the City Council in May 2020, the Phase II schedule was re-sequenced and slightly extended due to COVID-19, and the CBIS Facility and Ticketing Lobby were identified to proceed, based on multiple factors including funding source, construction status, and Airport operational impact. Resequencing of projects has helped short-term cash flow and allows some time for recovery of Airport revenues.

After initial review of the Airport's financial status, the CBIS Facility was identified to be completed due to its large share of Transportation Security Administration (TSA) grant funding. It will be substantially complete in late 2021. The Ticketing Lobby will have the greatest operational and passenger-experience impact, as it is the primary passenger interface facility and will allow for new technology such as common use, self-service kiosks. The Airport cannot receive beneficial use from the CBIS Facility unless the Ticketing Lobby is completed. By the end of first quarter 2021, the Ticketing Lobby will reach a significant milestone, with the completion of underground utilities and the foundation slab. At this time, it is unclear if it is financially prudent to continue with the rest of the Ticketing Lobby. Continuation of the Ticketing Lobby is dependent upon the forecast of the prolonged impacts to travel demand, Airport cash reserves, and the availability and use of additional federal relief funds.

Presently, the forecasts of travel demand are not favorable and remain very uncertain. The Airport will evaluate its financial status and return to the City Council by April 2021 to make a recommendation to proceed, delay further, or cancel the remaining portions of the Ticketing Lobby. In the meantime, the Airport has authorized the purchase of steel for the Ticketing Lobby as a prudent and relatively risk-free way to keep the Ticketing Lobby moving forward, pending a decision by April 2021. The design-build

contract also allows for contract exit ramps, whereby the City can cancel any uncompleted portions of Phase II for a 1.5 percent penalty on the value of work that is cancelled. The remaining work for the Ticketing Lobby is estimated at \$16 million, and, if construction continues, would be substantially complete early 2022.

The Airport, along with the Financial Management Department and financial consultant, will continue monitoring metrics and evaluating alternative funding scenarios. The next several months will help inform the Airport's ultimate recommendation for the Ticketing Lobby and the remaining four projects of Phase II.

### **Long Beach Airport Outlook**

As it awaits the full return of travelers, the Airport is taking every opportunity to enhance its travel environment. New art installations throughout the Airport are taking shape, along with added safety measures that augment the comforts that the Airport offers from being a largely outdoor facility. The Airport is seeking the Airport Health Accreditation from Airports Council International, which will give travelers further confidence that the Airport is committed to best practices and aligned with the industry on safe travel.

The Airport continues to closely monitor the pandemic and the ensuing recovery. The Airport's financial position has improved, in comparison to initial projections developed during the onset of the pandemic. The receipt of federal grants and relief funds and significant cost reductions implemented during the pandemic have helped improve the Airport's financial results for fiscal year 2020. The prudent actions taken by Airport management have made significant contributions to preserving the Airport's finances through the pandemic.

The prospects of a vaccine are encouraging for the full return of air travel. Over the next few years, the industry will continue to be reshaped and the Airport will adapt to the changes and continue its core focus of operating a safe and efficient Airport. Should you have any questions, please contact me at (562) 570-2605.

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