



City of CHARLOTTE

MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: City Manager Report

DATE: September 21, 2018

Airport Fund Deficit. You might recall that I informed Council during this year's budget discussions about an ongoing deficit in the Airport Fund. The auditors incorporate and report this fund as a part of the General Fund so we have not been obligated to develop a deficit elimination plan for the fund. Nevertheless, it is important to determine why the fund has shown deficits for the last several years.

Deficits in the Airport Fund first appeared in the 2011-12 fiscal year when a fund deficit at June 30, 2012 of \$392,279 was reported. It appears that this deficit was an outcome of the condemnation lawsuit involving the acquisition of an avigation (air) easement over the Crittenden property. Revenues from the state received in the following fiscal year shrank the deficit to \$30,371. The deficit increased over the next two fiscal years partly as a consequence of our borrowing funds to construct new T-hangars. It decreased over the next several years as the state reimbursed the City for most of these project costs through entitlement grants. We ended the 2017-18 fiscal year with a projected fund deficit of \$130,640. This amount, it appears, reflects the true deficit in the fund after receipt of all contributions from the state.

My analysis has led me to a single primary cause for the deficit: when budgeting each year for the airport fund, insufficient attention was paid to outflow of cash related to the avigation easement and T-hangar projects and to the timing of the inflow of cash from grant payments from the state and to distinguishing between these costs and revenues and those associated with operations. As a consequence, the true size of ongoing operational deficits was not recognized. There are two primary contributors to these operational deficits.

First, due to misinterpreting cash flow resulting from grant payments for the avigation easement and borrowing for the T-hangars, no general fund subsidy of the airport occurred during the 2013-14 fiscal year and insufficient subsidies occurred in other years. During the two years preceding the 2013-14 fiscal years, general fund transfers of \$54,254 and \$45,000 were recorded. Had we maintained the lower of these two amounts for the next two fiscal years, until

increased lease revenue from the new T-hangars was realized, our current projected deficit for the year ended June 30, 2018 would be just over \$40,000.

Second, errors in calculating the costs associated with fuel sales at the airport led to pricing fuel such that losses were incurred over several years averaging about \$1000 per year from 2011 through 2016. Although these losses were modest, decreases in sales followed a price hike in 2016. Further decreases in sales have occurred as a result of the closure of the flight school at the airport. These several factors resulted in a decrease in revenue from fuel sales from \$116,781 in the 2011-12 fiscal year to \$35,000 in the current fiscal year. I believe that this further compounded the errors in projecting cash flow in the fund associated with the receipt of grant funds.

(I recognized a problem associated with the pricing of fuel much earlier than 2016 but was assured on several occasions that what I was seeing was an artifact of the inventory process rather than an actual pricing issue.)

In short, peculiarities of cash flow from grants and inadequate budget practices have led to underestimating deficits from operations at the airport.

Two corrective actions are needed. First, it will be necessary to increase contributions from the general fund over several years to eliminate the accrued deficit and adequately cover operational deficits. A budget amendment will be prepared in the future to begin this process.

Second, greater attention to managing operational costs and revenues at the airport will be implemented. I will insure that Community Development Director Bryan Myrkle receives timely financial information necessary to better control costs and insure receipt of lease payments and other revenues.

Audit. Audit field work has commenced. It is not going quite as smoothly as we would like in terms of getting the auditors the information that they are requesting. Some of the challenges result from the current financial software we are using (and will be replacing) while others result from trying to replicate practices used in prior years. We are working diligently with our accountants to get on track.

Payroll Conversion. City Clerk Terpstra and I will be participating in a conference call next week as the first step to convert payroll processing from our current software to a new system.

CanDo! Meeting. CanDo! will be meeting on Wednesday, September 26 at 7:00 a.m. at the Library. The program this month will feature a presentation by HGB's Barbara Fulton and Patrick Sustrich that will feature a look at changes in health care over the hospital's 85 year history.