

**DIVISION OF AVIATION
FISCAL YEAR 2019 BUDGET TESTIMONY
APRIL 17, 2018**

INTRODUCTION

Good afternoon, Council President Clarke and Members of City Council. I am Chellie Cameron, Chief Executive Officer of the Philadelphia International Airport. Joining me today are Tracy Borda, Chief Financial Officer, Soledad Alfaro, Chief of Staff, as well as many other members of the Division of Aviation (the Division, or Aviation) staff. I am pleased to provide testimony on the Division of Aviation's Fiscal Year 2019 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: Proudly Connecting Philadelphia with the World! The Division of Aviation (the Division) is comprised of the Philadelphia International Airport (PHL) and the Northeast Philadelphia Airport (PNE) (PHL and PNE, collectively "the Airport"). The Division is a self-sustaining entity operating without the use of local tax dollars. In its endeavor to be a world class global gateway of choice for the city and the region, the Division partners with its stakeholders to provide guests a safe, secure, clean, modern, and convenient air travel experience. In addition to helping people get to where they need to go, travelers through the Division's gateway have opportunities to experience a wide variety of products and services that in many cases are distinctly and uniquely Philadelphian.

Plans for Fiscal Year 2019:

Air Service Development: PHL continues its efforts to satisfy the traveling public by working with existing and new airline partners to expand air service offerings, including new air service destinations. Scheduled departing seats to international destinations are expected to increase 2.8% in FY18 as American Airlines plans to resume daily service to Zurich, Switzerland (ZRH) in March 2018 and launch seasonal service to Budapest, Hungary (BUD) and Prague, Czech Republic (PRG) in May 2018, as well as Mexico City (MEX) in July 2018. Additionally, in October 2017, PHL announced that Aer Lingus will begin non-stop flights between Philadelphia and Dublin (DUB) starting in March 2018. The Irish carrier became the sixth foreign flag airline at PHL and the second to arrive in Philadelphia in the past year; Icelandair began service in May 2017 between PHL and Reykjavik. It is also expected that much of the newly announced domestic service during FY18, which included seven (7) new destinations from American Airlines and ten (10) new destinations from Frontier Airlines, will enhance both the size of our origination and destination market and connections to our international gateway, as well as provide more favorable pricing for PHL's travelers. During the upcoming year, PHL will continue to work with its current and future airline partners with the hopes of extending our reach to Asian and other markets.

Capital Development: The Airport's Capital Development Program (CDP) is a 5-10 year, \$2.0 billion airline-approved initiative to continue critical improvements and develop new infrastructure at both PHL and PNE. The CDP will strengthen the Airport's \$15.4 billion annual regional economic impact. The primary focus of the CDP is for terminal development and rehabilitation, airfield improvements and pavement rehabilitation, apron improvements, land acquisition, ground transportation projects, security and

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information technology enhancements, support facilities, and improvements at the Philadelphia Northeast Airport. Near-term airside improvements will include completion of Runway 9R-27L extension, new taxiways, aircraft holding bays, and aprons to allow aircraft to queue more efficiently for departure resulting in decreased operational costs to the airlines and a reduced impact to the environment as a result of less aircraft fuel burn while taxiing. The airfield and terminal projects will improve the customer experience, lay the groundwork for future development and capitalize on the role that the Airport plays as a regional economic engine.

Recently completed projects include modernization of the Airport's deicing facility, rehabilitation of the Taxiway K and E intersection near Runway 27R, replacement of approach lights at the runway 9R pier, rehabilitation of the safety area between the terminal building and the aircraft aprons, replacement of loading bridges across the terminals, upgrades to the security Access Control System across the facilities, replacement of obsolete light fixtures to energy efficient LED lights, upgrades to the PNE substation, and ongoing major upgrades to concession facilities as well as the purchase of fire-fighting vehicles.

Customer Satisfaction: PHL began passenger satisfaction surveys nearly two years ago, enabling the Airport to better understand the needs and desires of its domestic, international, local, and connecting passengers. PHL is in the process of developing metrics to gauge its success and utilize the results of these surveys to work with its airline partners and other aviation stakeholders. Visit Terminal B if you would like to see the results of successful collaboration in action. In October 2017, PHL, American Airlines, PHL's master concessionaire developer, and an award-winning hospitality group held the grand opening for the first phase of PHL's remake of Terminal B. The \$48 million investment is transforming the terminal into a modern space that includes everything from new and improved technology offerings, to local chef-driven restaurant concepts, to an immersive, free-flowing area filled with a range of shopping and dining options.

The group worked with renowned architects and designers to transform the physical interior of Terminal B into a world-class setting that combines comfort with beautiful spaces. The Terminal B facility has also been modernized with the introduction of 15 tech-driven Gate Lounges that allow guests to order food, drinks and amenities from the comfort of their gate. Now, travelers waiting for a flight can access more than 1,000 tablets positioned throughout restaurants and gate lounges. Tablets allow guests to track their flight, browse the web, play games, and order food and amenities from intuitive visual menus, all delivered directly to their seat. Customers also have access to more than 2,000 power and Universal Serial Bus (USB) ports with the redesigned terminal seating.

During 2018, the Airport anticipates opening some new passenger amenities which will complement the already wide range of offerings throughout our facility. First, we anticipate our new Quiet Room will be unveiled to the traveling public this spring. This new amenity will provide our passengers with a tranquil place for reflection away from the hustle and bustle of the airport. Another opening the Airport is preparing for is that of our new USO facility. This facility will offer state of the art amenities for our traveling military service members and their families.

Leadership in Diversity & Inclusion: The Airport is committed to involving disadvantaged business enterprises (DBEs) that possess the necessary qualifications in its contract and business opportunities. The Division plays an active role in setting and monitoring participation goals for the City's M/W/D/DBE

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Program with the Office of Economic Opportunity and is also responsible for administering two federal DBE programs. The first federal program applies to all contracts that utilize grant funding from the U.S. Department of Transportation. The Airport receives significant funding from the Federal Aviation Administration, and all these contracts carry federal DBE goals. The second federal program applies to all Airport concession contracts (the Airport Concession Disadvantaged Business Enterprise (ACDBE) Program). The Airport's Office of Business Diversity is responsible for following federal guidelines to set separate goals for these two programs and is one of five organizations in Pennsylvania (and the only City organization) authorized to certify firms for federal DBE participation. We consistently strive to meet or exceed goals for these three programs, as evidenced by our achievements. The Division has just begun a third program required by the US Department of Transportation; our Small Business Program. This program applies to contracts utilizing FAA grants.

The Division continues to show its leadership in diversity and inclusion through its contract awards, outreach events and accolades, and has consistently achieved or surpassed its established Disadvantaged Business Enterprises (DBEs) goals. The Airport's federal DBE goal for the last Federal Fiscal Year was 16.3% and commitments/awards totaled 18%. For FFY 2017, the Airport's ACDBE participation goal was 16.45%, and its achievement totaled 28.62%. The Division's M/W/DSBE goal for Fiscal Year 2017 was 30%, and actual commitments/awards totaled 32.1%. In the first two quarters of Fiscal Year 2018, the Airport achieved 27% on all OEO contracts.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 31, 2017)				
	Total	Minority	White	Female
Number of Full-Time Staff	788	573	215	249
Number of Exempt Staff	17	6	11	8
Number of Executive Staff (deputy level and above)	12	5	7	5
Average Salary, Full-Time Staff	\$46,998	\$43,189	\$57,417	\$47,419
Average Salary, Civil Service-Exempt Staff	\$140,471	\$141,667	\$139,818	\$144,750
Average Salary, Executive Staff	\$162,500	\$152,000	\$170,000	\$172,000
Median Salary, Full-Time Staff	\$41,128	\$37,692	\$49,321	\$39,990
Median Salary, Civil Service-Exempt Staff	\$150,000	\$150,000	\$150,000	\$140,000
Median Salary, Executive Staff	\$160,000	\$150,000	\$160,000	\$160,000

Employment Levels (as of December 31, 2017)		
	Budgeted	Filled
Number of Full-Time Positions	900	788
Number of Civil-Service Exempt Positions	17	17
Number of Executive Positions	12	12
Average Salary of All Full-Time Positions	\$45,833	\$46,998
Median Salary of All Full-Time Positions	\$39,930	\$41,128

Aviation Fund Financial Summary by Class – Division of Aviation Only						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$47,716,649	\$45,750,961	\$49,555,783	\$48,153,000	\$51,000,000	\$2,847,000
Class 200 - Purchase of Services	\$103,125,441	\$75,626,908	\$109,296,196	\$96,918,000	\$107,000,000	\$10,082,000
Class 300/400 - Materials and Supplies	\$13,896,000	\$7,793,545	\$12,529,357	\$8,928,000	\$11,500,000	\$2,572,000
Class 500 - Contributions	\$4,205,000	\$5,196,596	\$6,002,500	\$2,700,000	\$6,300,000	\$3,600,000
Class 800 - Payment to Other Funds	\$24,625,000	\$7,156,485	\$14,625,000	\$22,625,000	\$24,000,000	\$1,375,000
	\$193,568,090	\$141,524,495	\$192,008,836	\$179,324,000	\$199,800,000	\$20,476,000

Aviation Fund Financial Summary by Class (inclusive of funding allocated to other City department budgets)						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$132,390,694	\$129,130,000	\$139,031,000	\$138,540,114	\$143,602,575	\$5,062,461
Class 200 - Purchase of Services	\$144,338,618	\$107,078,000	\$142,156,000	\$129,776,089	\$139,979,589	\$10,203,500
Class 300/400 - Materials and Supplies	\$21,151,357	\$13,979,000	\$19,071,000	\$15,468,100	\$18,041,900	\$2,573,800
Class 500 - Contributions	\$6,717,000	\$5,197,000	\$8,515,000	\$5,212,000	\$8,812,000	\$3,600,000
Class 700 - Debt Service	\$139,626,331	\$122,205,000	\$159,426,000	\$159,426,123	\$163,801,936	\$4,375,813
Class 800 - Payment to Other Funds	\$24,648,000	\$7,157,000	\$14,648,000	\$22,648,000	\$24,023,000	\$1,375,000
	\$468,872,000	\$384,746,000	\$482,847,000	\$471,070,426	\$498,261,000	\$27,190,574

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Professional Services Contracts Summary						
	FY13	FY14	FY15	FY16	FY17	FY18 YTD (Q1 & Q2)
Total amount of contracts	\$62,159,051	\$51,447,924	\$67,074,967	\$67,064,751	\$54,101,186	\$43,827,371
Total amount to M/W/DSBE	\$17,916,458	\$15,257,663	\$20,736,510	\$20,773,512	\$18,732,194	\$13,814,316
Participation Rate	29%	30%	31%	31%	35%	32%

M/W/DSBE Contract Participation Goal			
	FY17	FY18	FY19
M/W/DSBE Contract Participation Goal	30%	32%	32%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The Aviation Fund is an enterprise fund of the City. The Aviation Fund is self-supporting, using aircraft landing fees, terminal building rentals, concession revenue and other facility charges to fund annual expenses. The FY19 proposed budget for the Division of Aviation is \$199,800,000, which increases Aviation's budget by \$20.5 million (11.42%) over the current projection for FY18. This increase is primarily due to increases in salaries and benefits from a renegotiated labor contract with District Council 33, technology-related services, ongoing engineering costs related to our capital development program, expanded customer service programs, and greater maintenance requirements. Requested FY19 appropriations will provide sufficient resources to operate and maintain the 3.3-million-square-foot terminal complex and 2,584-acre PHL site, as well as the 1,126-acre PNE.

The proposed budget includes:

- \$51,000,000 in Class 100, a \$2,847,000 increase over FY18 current projected expenditures. This funding is requested to cover a wage increase of 2.5% for District Council 33.
- \$107,000,000 in Class 200, a \$10,082,000 increase due to the transfer of OIT's contractual services budget back to the Aviation Fund, which had transferred from Aviation to OIT during the previous mayoral administration.
- \$8,000,000 in Class 300, a \$2,000,000 increase over FY18 current projected expenditures. This funding is requested for increased security badging supplies, additional building materials, general hardware and tools related to ongoing maintenance; runway deicing fluids; and replacement lighting for runways and taxiways.
- \$3,500,000 in Class 400, a \$572,000 increase over FY18 current projected expenditures. This funding is requested to replace aged vehicles; and to purchase additional IT equipment.
- \$6,300,000 in Class 500, a \$3,600,000 increase over FY18 current projected expenditures due to the expected increase in real estate taxes as the airport continues with the purchase of adjacent and surrounding land.
- \$24,000,000 in Class 800, a \$1,375,000 increase over FY18 current projected expenditures to cover any increases in utility cost and transfers to Capital Projects.

Overall, the total FY19 Aviation Fund request is \$498.3 million, a 5.77% increase from the FY18 operating budget estimated obligations of \$471.1 million. The \$498.3 million request includes the \$199.8 million in appropriations for the Division of Aviation noted above and also includes \$298.5 million for appropriations directly related to the Police, Fire, Fleet Management, Technology, Public Property, Sustainability, Law, Risk Management and Finance Departments. The \$27.2 million increase is inclusive of the \$20.5 million increase outlined above and also includes an additional \$2.2 million in class 100 to cover the 3.5% wage increase for the Fraternal Order of Police; \$121,000 in class 200 for other departments' increased contractual needs; and \$4.4 million budgeted for additional debt service payments associated with the Airport's issuance of new bonds and a direct loan. The chart titled "Financial Summary by Class - Division of Aviation" shows the Division of Aviation's budget, and the additional financial summary chart shows the entire Aviation Enterprise Fund's budget, which is inclusive of funding included in other City department budgets.

STAFFING LEVELS

The Division of Aviation is requesting 900 positions in FY19, level with FY18 budgeted positions. As of December 2017, the Division had 788 filled positions, roughly a 4% increase in staffing levels from December 2016.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)				
	Total Number of New Hires	Spanish	Hindi	Malayalam
Black or African American	34	-	-	-
Asian	2	-	1	1
Hispanic or Latino	3	1	-	-
White	8	-	-	-
Other	2	-	-	-
Total	49	1	1	1

From July 1, 2017 through December 31, 2017, the Division welcomed 49 new employees. These hires were 35% female and 65% male, and 69% Black, 16% White, 6% Hispanic, 4% Asian, and 4% Other. Of these 49 new hires, 3 are bilingual. In total, 74 permanent employees and 16 temporary employees of the Aviation staff are bilingual or multilingual.

PERFORMANCE, CHALLENGES, AND INITIATIVES

FY18 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 & Q2)	FY18 Target	FY19 Target
Enplaned passengers (million) ¹	14.81	7.60	15.00	15.36
Operations (# arrivals and departures) ²	378,334	188,677	365,000	390,000
Freight and mail cargo (tons) ¹	448,668	246,650	455,000	467,381
Non-airline revenue (\$ million) ³	\$133.66	\$63.50	\$120.00	\$120.00
Retail/beverage sales (\$ million) ³	\$197.42	\$101.73	\$190.00	\$190.00

¹ FY18 Q2 is an estimate.

² PHL continues to experience a decline in aircraft operations due mainly to changes in aircraft fleet mix instituted by PHL's mainline carriers as they move to eliminate many of the regional aircraft from their respective route networks. The FY19 target is higher due to upcoming additional European service from American Airlines and Aer Lingus.

³ FY18 Q2 is an estimate. The FY18 target is lower than the FY17 year-end actual due to an ongoing capital improvement in the Terminal B Concourse to replace several food, beverage, and retail locations with in-gate, high-end bars, restaurants and retail shops. Revenue is expected to rebound following completion of this project.

OTHER BUDGETARY IMPACTS

Federal and State

The Division is also keeping a watchful eye on any potential federal budget cuts that may have an impact on our operations. As well as bracing for potential cuts, per passenger-based funding levels have not been increased in nearly two decades leading to a decrease in buying power and capital development. Any alteration to this revenue source used for capital development (the Passenger Facility Charge) would need to be authorized by Congress.

Grant Funding for Operating Requirements

The Transportation Security Administration (TSA) awards grants on an annual basis to help offset the Airport's cost of providing explosive detection through canine teams, and law enforcement officer support at security checkpoints. The current TSA explosive detection canine contract allocates \$555,500 per year to PHL for a total of four years ending in 12/31/2020. The Airport received \$392,955 in FFY2016. The Law Enforcement Officer (LEO) Program funding received to date in CY18 totals \$427,160. During CY17, the total was \$829,840. The current LEO contract covers three (3) years (FFY2016 - 2018).

Grant Funding for Capital Projects

In FFY2017, the Airport received \$16.7 million in funding for the 9R/27L Runway Extension project, along with \$208,426 for noise mitigation efforts at Fort Mifflin. Recently in 2018, PHL received \$100,967 from the FAA for the purchase of eight noise monitors. PHL anticipates receiving \$22.0 million in FFY2018 for the East Airfield Rehabilitation project. For Philadelphia Northeast Airport, the FAA awarded \$930,980 in FFY17 to rehabilitate airfield and approach signage. In FFY 2018, PHL expects to receive \$2.2 million in funding for the Rehabilitation of Runway 6-24.

PHL receives a state grant for \$800,000 annually from the Pennsylvania Department of Transportation's Aviation Development Program through the Bureau of Aviation. This grant is a match to the AIP funds the Airport receives. PNE also receives a state matching grant which equals half of the local portion of the AIP funded project(s).

In 2017, TSA awarded PHL \$12.3 million for technology upgrades to A West Sector 3 Explosive Detection System (EDS) and the Checked Baggage Reconciliation Area (CBIS).

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY18											
Vendor Name	Service Provided	Dollar Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % Participation - All DSBEs	Total \$ Value Participation - All DSBEs	Local Business (principal place of business located within City limits)	Waiver for Living Wage Compliance?
First Transit	Shuttle Bus Services	\$12,157,721	7/7/2010	6/1/2011	MBE: 7-10% &/or	11.7%	\$1,422,453	12%	\$1,446,769	yes	no
					WBE: 7-10%	3%	\$24,315				
					DSBE: N/A	0%	\$0				
Parkway Garage, Inc.	Ground Transportation	\$5,138,709	9/1/2015	11/1/2015	MBE: 20-30% &/or	4.9%	\$251,797	19%	\$955,800	yes	no
					WBE: 20-30%	13.7%	\$704,003				
					DSBE: N/A	0%	\$0				
Elliott-Lewis Corporation	Computer Info Systems	\$5,093,710	6/5/2017	10/1/2017	MBE: 25-30% &/or	31.7%	\$1,614,706	32%	\$1,614,706	yes	no
					WBE: 25-30%	0%	\$0				
					DSBE: N/A	0%	\$0				
Hill International	Capital Program Administration	\$4,800,000	10/26/2016	7/1/2017	MBE: 20-25% &/or	9.1%	\$436,800	32%	\$1,526,400	yes	no
					WBE: 15-20%	22.7%	\$1,089,600				
					DSBE: N/A	0%	\$0				
Parkway Garage, Inc.	Public Info Services	\$3,826,725	4/12/2017	9/1/2017	MBE: 10-15% &/or	8.2%	\$313,791	23%	\$861,013	yes	no
					WBE: 5-20%	14.3%	\$547,222				
					DSBE: N/A	0%	\$0				

EMPLOYEE DATA

Staff Demographics (as of December 31, 2017)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	326	180	<i>Total</i>	0	2
<i>% of Total</i>	41%	23%	<i>% of Total</i>	0%	17%
<i>Average Salary</i>	\$41,271	\$43,861	<i>Average Salary</i>	N/A	\$160,000
<i>Median Salary</i>	\$38,038	\$38,138	<i>Median Salary</i>	N/A	\$160,000
	White	White		White	White
<i>Total</i>	170	45	<i>Total</i>	5	2
<i>% of Total</i>	22%	6%	<i>% of Total</i>	42%	17%
<i>Average Salary</i>	\$56,273	\$61,044	<i>Average Salary</i>	\$156,000	\$205,000
<i>Median Salary</i>	\$49,999	\$46,513	<i>Median Salary</i>	\$160,000	\$205,000
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	14	12	<i>Total</i>	1	1
<i>% of Total</i>	2%	2%	<i>% of Total</i>	8%	8%
<i>Average Salary</i>	\$54,469	\$52,022	<i>Average Salary</i>	\$160,000	\$130,000
<i>Median Salary</i>	\$43,716	\$44,233	<i>Median Salary</i>	\$160,000	\$130,000
	Asian	Asian		Asian	Asian
<i>Total</i>	23	9	<i>Total</i>	1	0
<i>% of Total</i>	3%	1%	<i>% of Total</i>	8%	0%
<i>Average Salary</i>	\$62,665	\$55,622	<i>Average Salary</i>	\$150,000	N/A
<i>Median Salary</i>	\$53,359	\$52,251	<i>Median Salary</i>	\$150,000	N/A
	Other	Other		Other	Other
<i>Total</i>	6	3	<i>Total</i>	0	0
<i>% of Total</i>	1%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$42,664	\$38,962	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$41,646	\$37,764	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	48	26	<i>Total</i>	2	2
<i>% of Total</i>	6%	3%	<i>% of Total</i>	17%	17%
<i>Average Salary</i>	\$58,096	\$55,458	<i>Average Salary</i>	\$155,000	\$150,000
<i>Median Salary</i>	\$52,688	\$44,110	<i>Median Salary</i>	\$155,000	\$150,000
	Male	Female		Male	Female
<i>Total</i>	539	249	<i>Total</i>	7	5
<i>% of Total</i>	68%	32%	<i>% of Total</i>	58%	42%
<i>Average Salary</i>	\$46,803	\$47,419	<i>Average Salary</i>	\$155,714	\$172,000
<i>Median Salary</i>	\$42,950	\$39,990	<i>Median Salary</i>	\$160,000	\$160,000

LANGUAGE ACCESS

- 1) **Has your leadership received language access training?** The Chief Executive Officer (CEO) has received language access training and commits to scheduling training for the leadership team this calendar year. The Airport prioritizes bilingual status when recruiting candidates in leadership positions. As such, we have four bilingual members of our senior team. This accounts for 36% of leadership.
- 2) **Do you currently have a language access coordinator?** The Airport's Chief Administrative Officer is responsible for the role of language access coordinator for the Philadelphia International Airport. This position is currently vacant; however, we are in the process of searching for qualified candidates.
- 3) **Has your department written a language access plan and is it posted online?** Yes, and it is available here: <https://beta.phila.gov/documents/language-access-plans/>
- 4) **Explain what your department has done to improve language access services over the past year.** Over the past year the Airport has added additional bilingual and multilingual employees, both permanent and temporary, in an effort to better serve our diverse passenger base. The Airport also recently hired a Director of Community Affairs. This individual serves as our liaison with the community and is in a key position to communicate opportunities throughout the region. Many of our opportunities are posted on our jobs portal website and recently the Airport began to take a targeted approach by incorporating bilingual preferences directly into many of our job postings.