

Jacksonville Aviation Authority

Annual Report / '08



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“*As an integral part of our community’s transportation infrastructure, the JAA is committed to being environmentally responsible. Working together with others in the aviation industry, we can build our local economy in a sustainable way that will benefit future generations.*”

John D. Clark, III

Management's Condensed Discussion & Analysis

(Fiscal year Ended September 30, 2008)



Dashboard Matrix

Summary Statement of Net Assets (Financial Position)



Assets

Current
Noncurrent (restricted/other)
Capital assets, net
Total assets

Liabilities

Current
Payable from restricted assets
Long-term debt
Total liabilities

Net assets

Invested in capital assets/net of related debt
Restricted
Unrestricted
Total net assets



	September 30,		Increase/ (Decrease) from	% Increase/ (Decrease)
	2008	2007	2007	from 2007
	<i>(dollar amounts in thousands)</i>			
Current	\$ 46,228	\$ 42,277	\$ 3,951	9.35
Noncurrent (restricted/other)	90,797	147,246	(56,449)	(38.34)
Capital assets, net	545,028	486,244	58,784	12.09
Total assets	682,053	675,767	6,286	0.93
Current	23,649	21,829	1,820	8.34
Payable from restricted assets	11,778	13,058	(1,280)	(9.80)
Long-term debt	214,739	228,207	(13,468)	(5.90)
Total liabilities	250,166	263,094	(12,928)	(4.91)
Invested in capital assets/net of related debt	358,313	336,911	21,402	6.35
Restricted	32,793	38,323	(5,530)	(14.43)
Unrestricted	40,781	37,439	3,342	8.93
Total net assets	\$ 431,887	\$ 412,673	\$ 19,214	4.66

Introduction

The following is management's condensed discussion and analysis of the financial performance and activity of the Jacksonville Aviation Authority (the Authority) for the fiscal years ended September 30, 2008 and 2007.

The discussion has been prepared by management and is unaudited. The Authority is a body corporate and politic, established by the state of Florida on June 5, 2001, pursuant to the provisions of Chapter 2001-319 of the Laws of Florida, to own and operate aviation facilities in Duval County, Florida. Prior to October 1, 2001, the Authority operated as a division of the Jacksonville Port Authority.

Pursuant to the provisions of Chapter 2005-328 of the Laws of Florida, the Authority changed its name from Jacksonville Airport Authority to Jacksonville Aviation Authority effective June 10, 2005. The Authority consists of a seven member board, four members appointed by the Governor of the State of Florida and confirmed by the State Senate and three members appointed by the Mayor of the City of Jacksonville and confirmed by the City Council of the City of Jacksonville.

The Authority operates an airport system that consists of four airports: Jacksonville International Airport (JIA), Craig Airport, Herlong Airport and Cecil Field. The organization consists of approximately 229 full-time employees in a structure that includes administration, airport management and operations, and police.

The Authority is self-supporting, using aircraft landing fees, fees from terminal and other rentals, and revenues from concessions to fund operating expenses.

The Authority is not taxpayer-funded. The capital construction program is funded by bonds issued by the Authority, federal and state grants, passenger facility charges (PFCs) and Authority revenues.

The Authority is a component unit within the City of Jacksonville, Florida's (the City's) basic financial statements based on the City's approval of the Authority's budget. As a component unit of the City, the Authority's financial statements are discretely presented in the City's basic financial statements.

The accompanying financial statements present the financial position of the Authority only. The Authority does not have any component units and is not involved in any joint ventures.

Authority's Activity Highlights

The demand for air transportation is, to a large degree, dependent upon the demographic and economic characteristics of an airport's air trade area (i.e., the geographical area served by an airport). This relationship is particularly true for origin-destination (O&D) passenger traffic, which has been the primary component of demand at JIA. The major portion of demand for air travel at the JIA is largely influenced more by the local characteristics of the area served than by individual air carrier decisions regarding hub and service patterns in support of connecting activity. JIA is classified by the Federal Aviation Administration (FAA) as a medium hub facility based on its percentage of nationwide enplanements.

Passenger enplanements at JIA for the fiscal year ended September 30, 2008, totaled 3,058,006, a decrease of 3.46% from the prior fiscal year. This decrease reflects the state of the economy and the reduced seat capacity into the JIA airport. In an effort to reduce operating costs, in response to high fuel prices and slowdown in the economy, most airlines have reduced seat capacity in US airports, either through the elimination or reduction in the number of daily flights.

Passengers, enplanements and landed weights for the fiscal years ending September 30, were as follows:

	2008	2007	2006
Total passengers	6,120,308	6,307,416	5,842,758
% increase	-2.97%	7.95%	3.00%
Enplanements	3,058,006	3,167,664	2,924,527
% increase	-3.46%	8.31%	2.66%
Landed weight	4,483,698	4,542,233	4,279,841
% increase	-1.29%	6.13%	0.95%

For fiscal year 2008, the Jacksonville International Airport daily air carrier departures decreased to 94 from 113 and 109 departures in 2007 and 2006, respectively.

Financial Highlights

The Authority's assets exceeded liabilities for fiscal year 2008 by approximately \$419.58 million compared to \$412.67 million and \$376.00 million in fiscal years 2007 and 2006, respectively.

Unrestricted funds for fiscal years 2008, 2007 and 2006 were approximately \$40.78 million, \$37.44 million and \$23.21 million, respectively. The Authority may use these funds for any lawful purpose.

The overall financial position of the Authority has improved as indicated by consecutive increases in total net assets.

The improving trend for fiscal years 2008 and 2007 is due primarily to grants-in-aid of construction and earnings from continuing operations. The Authority's total debt decreased \$9.55 million in fiscal year 2008. This is the result of issuing a 2008 revenue note for \$41.49 million to pay off the 2005 revenue bonds in the amount of \$39.96 million, defeasing the 2000B revenue bonds in the amount of \$3.61 million, along with normal debt service reductions of \$7.47 million.

The Authority's total debt increased \$82.91 million in fiscal year 2007. The debt increased by \$129.19 million due to the issuance of the 2006 revenue bonds. The decreases were the result of \$7.23 million in scheduled debt service payments and early payoff of the 2003B1, 2003B2, 2002A bank loan, 2002B bank loan and the 2002D note payable in the amount of \$39.05 million.



Richard Rossi
Chief Financial Officer
Jacksonville Aviation Authority



Operating Revenues

Fiscal year 2008 operating revenues decreased by 7.04% over 2007, and fiscal year 2007 operating revenues exceeded 2006 by 9.40%. A large percentage of operating revenues at the Authority is directly related to passenger volumes and aircraft operations.

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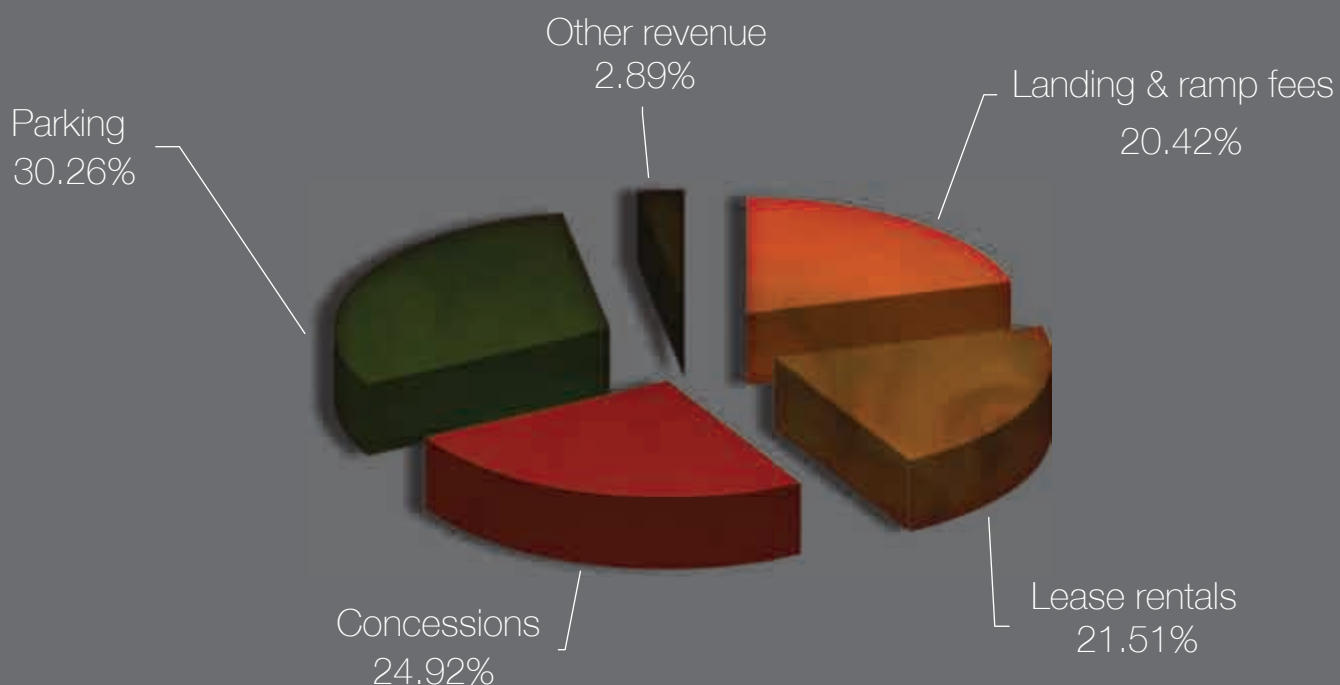
The decrease in landing and ramp fees of 20.16% from fiscal year 2008 over 2007 is due to a reduction in the landing fee for fiscal year 2008. The decrease in the lease rentals from 2008 to 2007 of 13.09% is primarily attributable to decreased airline rental revenues.

The decrease in other revenue from 2008 to 2007 of 21.18% is primarily attributable to the reclassification of debt expense from a contra-revenue account to an expense account. The increase in other revenue from 2007 to 2006 of 16.60% is primarily attributable to an adjustment to bad debt allowance for the collections received from bankruptcies.

The increase in parking revenue of 15.94% from fiscal year 2007 over 2006 is due to an increase in parking rates. In 2007 concession revenue increased by 14.79% over 2006 due to increases in concession gross revenues.

The decrease in lease rentals from 2007 to 2006 of 2.01% is primarily attributable to decreased airline rental revenues in terminal rental rates based on operating expenses which impact rates that are determined by signatory airline agreement.

Operating Revenues 2008



Operating Expenses

In fiscal year 2008 operating expenses before depreciation and amortization increased by 9.19% over 2007. The primary increases were in utilities of 32.26%, due to the increase in cost of utilities and the implementation of storm water fees. Salaries and benefits increased in fiscal year 2008 over 2007 by 6.54%, due to increases in the cost of health insurance and merit increases. With the slowdown in passenger activity, and the uncertainty regarding the impact of the economy on the airline industry, the Authority in the fourth quarter of fiscal year 2008 evaluated all expenses for possible areas of savings.

In response to the recent slowdown in passengers and the weak economy, management prepared a pro-action plan that was presented to the Authority's board in September 2008. This analysis provided management's assessment of various scenarios that anticipate decreased revenue due to current economic conditions. Management has since implemented reductions in various operating expenses for fiscal year 2009, along with deferring capital to future years.

In fiscal year 2007 operating expense before depreciation and amortization increased by 0.62% over 2006. The primary increase was in maintenance operating expense of 23.98%, due to additional repair projects. Business training and travel in 2007 decreased by 9.81% over 2006 due to a reduction in business travel.

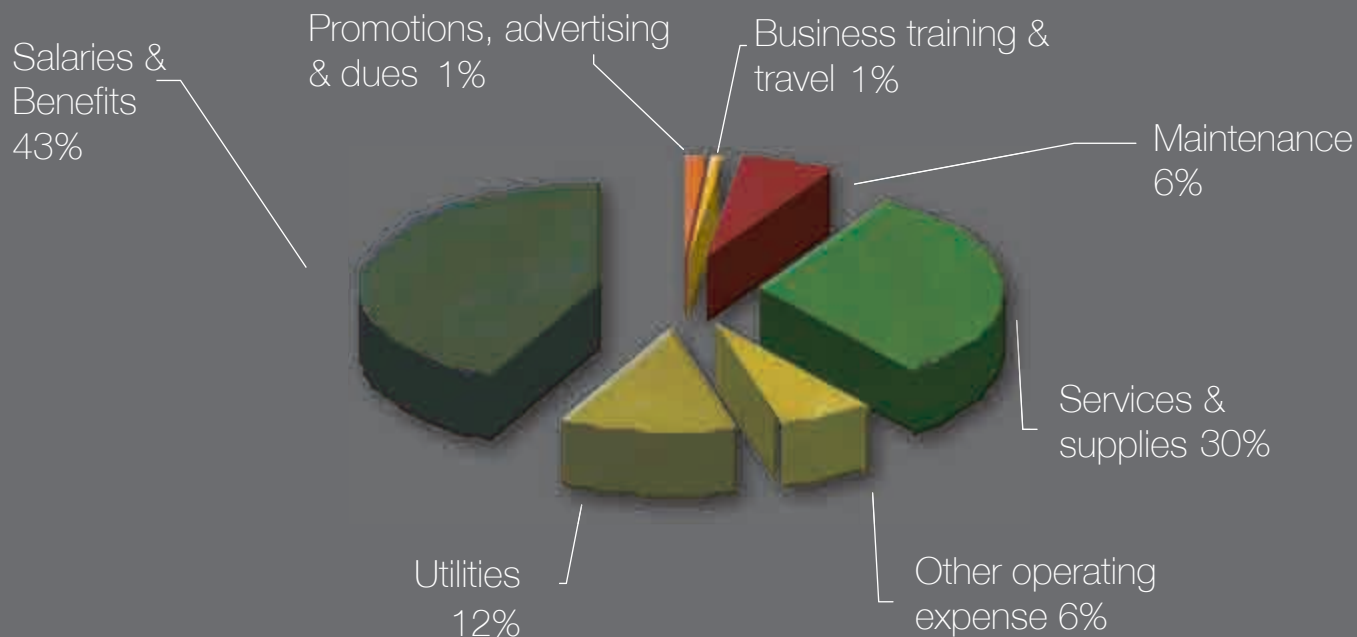
Operating Expenses by Major Source

(dollar amounts in thousands)

	<i>September 30,</i>		<i>Increase/ (Decrease)</i>	<i>% Increase/ (Decrease)</i>
	<i>2008</i>	<i>2007</i>	<i>from 2007</i>	<i>from 2007</i>
Salaries and benefits	\$ 17,405	\$ 16,336	\$ 1,069	6.54 %
Services and supplies	12,438	12,000	438	3.65
Business training and travel	409	340	69	20.29
Promotions, advertising and dues	525	448	77	17.19
Utilities	4,723	3,571	1,152	32.26
Maintenance	2,590	2,454	136	5.54
Other operating expenses	2,788	2,287	501	21.91
Total operating expenses	\$ 40,878	\$ 37,436	\$ 3,442	9.19

Operating Expenses

Operating Expenses 2008



Jacksonville Aviation Authority Annual Financial Report Fiscal Year 2008

Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2008
of the Jacksonville Aviation Authority
Jacksonville, Florida

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Visit our website - www.jaa.aero - and view
JAA's comprehensive annual financial report

Total Revenues, Expenses and Changes in Net Assets Years Ended September 30

(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Landing and ramp fees	\$ 12,117	\$ 15,176	\$ 13,943
Lease rentals	12,769	14,692	14,993
Parking	17,956	17,058	14,713
Concessions	14,788	14,740	12,841
Other revenue	1,716	2,177	1,867
Total operating revenues	<u>59,346</u>	<u>63,843</u>	<u>58,357</u>
Operating expenses (including depreciation & amortization):			
Salaries and benefits	17,405	16,336	16,840
Services and supplies	12,438	12,000	11,641
Business training and travel	409	340	377
Promotions, advertising and dues	525	448	477
Utilities	4,723	3,571	3,646
Maintenance	2,590	2,454	1,979
Other operating expenses	2,788	2,287	2,245
Depreciation and amortization	26,273	23,880	21,922
Total operating expenses	<u>67,151</u>	<u>61,316</u>	<u>59,127</u>
Operating (loss) income	(7,805)	2,527	(770)
Nonoperating revenues:			
Passenger facility charges	12,398	13,130	12,450
Investment income	6,037	10,992	5,639
Payments from primary government	8	12	60
Payments from federal and state agencies	226	206	233
Non operating revenues	22	1	9
	<u>18,691</u>	<u>24,341</u>	<u>18,391</u>
Nonoperating expenses:			
Interest expense	10,226	13,569	8,012
Contributions to other governments	0	0	0
Other expenses	1,888	226	334
Total Nonoperating expenses	<u>12,114</u>	<u>13,795</u>	<u>8,346</u>
Capital contributions	<u>20,442</u>	<u>23,600</u>	<u>13,080</u>
Increases in net assets	<u>\$ 19,214</u>	<u>\$ 36,673</u>	<u>\$ 22,355</u>
Net Assets at End of Year:			
Investments in Capital Assets net of related debt	358,313	336,911	302,987
Restricted	32,793	38,323	49,805
Unrestricted	40,781	37,439	23,208
Total Net Assets	<u>\$ 431,887</u>	<u>\$ 412,673</u>	<u>\$ 376,000</u>

Signatory Airline Rates and Charges

The Authority and certain airlines negotiated an airline use and lease agreement (the agreement) with an effective date of October 1, 2007 for 5 year term, which in part establishes how the airlines that signed the agreement will be assessed annual rates and charges for their use of JIA. Landing fees and terminal rental rates for non-signatory airlines are assessed at 125 percent of the signatory rates.

The agreement with the signatory airlines is hybrid in nature, with a residual rate-making methodology for the airfield and a compensatory methodology for the terminal. The Authority also has the ability under the agreement to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions. No such adjustments were made during fiscal years 2008, 2007 and 2006.

The rates and charges for the signatory airlines at September 30 were as follows:

	2008	2007	2006
Landing fees (per 1,000 lbs. MGLW)	\$ 1.14	\$ 1.50	\$ 1.52
Apron fee rental (per linear foot)	302.56	323.59	301.45
Average terminal rental rate (per square foot)	23.60	43.41	53.15
Ticket counter (per square foot)	32.27	59.31	72.99
Bag claim (per square foot)	25.82	47.44	58.39

Note: 2008 rates are estimates

Cash & Investment Management

The Authority's cash and cash equivalents decreased by \$58.54 million for fiscal year 2008 from 2007. This was primarily due to an increase in cash used by capital and related financing activities. Cash and cash equivalents, unrestricted, increased by \$2.12 million and restricted cash and cash equivalents decreased by \$60.66 million.

The Authority's cash and cash equivalents increased by \$66.72 million for fiscal year 2007 from 2006. This was primarily due to proceeds from long term debt. Cash and cash equivalents, unrestricted, increased by \$5.41 million and restricted cash and cash equivalents increased by \$61.31 million.

Changes in Cash & Cash Equivalents

<i>(dollar amounts in thousands)</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities	\$ 22,561	\$ 29,600	\$ 18,795
Cash flows from non-capital financing Activities	256	(9,782)	301
Cash flows from capital and related financing Activities	(82,103)	35,705	(6,638)
Cash flows from investing activities	<u>746</u>	<u>11,194</u>	<u>3,536</u>
Net change in cash and cash equivalents	(58,540)	66,717	15,994
Cash and equivalents, beginning of year	<u>132,023</u>	<u>65,306</u>	<u>49,312</u>
Cash and equivalents, end of year	<u><u>73,483</u></u>	<u><u>132,023</u></u>	<u><u>65,306</u></u>
Non-cash investing, capital and financing activities			
Changes in FMV of Investments	\$ (265)	\$ (243)	\$ (351)
Capitalized Interest	<u><u>\$ (1,664)</u></u>	<u><u>\$ (230)</u></u>	<u><u>\$ -</u></u>

Debt Activity

The Authority issued \$41.49 million new debt in fiscal year 2008 in the form of a note from Compass Bank. This note refunded the 2005 revenue refunding bonds in the amount of \$39.96 million. The 2000B revenue bonds were also defeased in the amount of \$3.61 million. Normal debt service payments reduced the overall debt by \$7.47 million.

The Authority issued \$129.19 million of 2006 revenue bonds in October, 2006. In March of 2007 the 2003B1 and B2 series bonds were refunded in the amount of \$33.18 million. The 2002A and B bank notes were paid in full in the amount of \$5.83 million and the line of credit was paid for \$50 thousand. The result of this activity and normal debt service payments of \$7.23 million resulted in an overall increase in debt of \$82.91 million, from 2006 to 2007.

Debt Service Coverage

Debt service coverage is a covenant of the bond resolutions requiring that a surplus of funds be available in the amount 125% of principal and interest due in the subsequent year. This coverage serves as an indicator to bond holders that funds are available for timely debt service payments. Historically, the Authority has maintained a coverage ratio higher than its requirement. The actual debt service coverage ratio for the fiscal years 2008, 2007 and 2006 was 1.77, 1.49 and 2.27, respectively.

Summary Statements of Net Assets

Total assets increased by 0.93% during 2008 while total liabilities decreased by 4.91%. These changes resulted in an increase in net assets of 4.66%.

	<i>(dollar amounts in thousands)</i>			
	September 30, 2008	2007	Increase/ (Decrease) from 2007	% Increase/ (Decrease) from 2007
Assets				
Current	\$ 46,228	\$ 42,277	\$ 3,951	9.35 %
Noncurrent (restricted/other)	90,797	147,246	(56,449)	(38.34)
Capital assets, net	545,028	486,244	58,784	12.09
Total assets	682,053	675,767	6,286	0.93
Liabilities				
Current	23,649	21,829	1,820	8.34
Payable from restricted assets	11,778	13,058	(1,280)	(9.80)
Long-term debt	214,739	228,207	(13,468)	(5.90)
Total liabilities	250,166	263,094	(12,928)	(4.91)
Net assets				
Invested in capital assets, net of related debt	358,313	336,911	21,402	6.35
Restricted	32,793	38,323	(5,530)	(14.43)
Unrestricted	40,781	37,439	3,342	8.93
Total net assets	\$ 431,887	\$ 412,673	\$ 19,214	4.66
Unrestricted working capital				
Current assets	56,228	52,277	3,951	7.56
Current liabilities	(23,649)	(21,829)	(1,820)	8.34
Working capital	\$ 32,579	\$ 30,448	\$ 2,131	7.00

Capital Construction

During 2008, the Authority expended approximately \$90.15 million on capital activities. Major projects in 2008 at JIA continue to be construction and expansion of concourses A and C. During 2007 the Authority expended approximately \$70.88 million on capital activities. Major projects in 2007 at JIA were the construction and expansion of concourse A and C, along with the apron and taxiway. Average monthly capital construction spending was \$7.51 million, \$5.91 million and \$2.11 million for fiscal years 2008, 2007 and 2006,

Economic Factors and Next Year's Budget

The Authority originally projected another increase in enplanements for fiscal year 2009 over the prior year. Due to changing economic conditions those projections have been revised to reflect a decrease of 10% from the prior year. Revenues for fiscal year 2009 were originally forecasted to be approximately \$65.20 million or 9.85% above fiscal year 2008. This projection has also been revised to \$58.68 million or a 1.13% decrease over fiscal year 2008. Operating expenses before depreciation and amortization for fiscal year 2009 are forecasted to be approximately \$45.45 million or 11.12% from fiscal year 2008. The Authority expects to face continued challenges in fiscal year 2009 because of the troubled financial condition of the nation's airlines and reduced federal resources. Costs for security and other operational issues remain on the increase. The Authority continues to seek opportunities to diversify its revenues through new revenue-generating sources such as real estate development and aviation consulting.

Contacting the Authority's Financial Management

The financial report is designed to provide the Authority's board of directors, management, investors, creditors and customers with a general view of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact Chief Financial Officer, P.O. Box 18018, Jacksonville, Florida 32229-0018.