

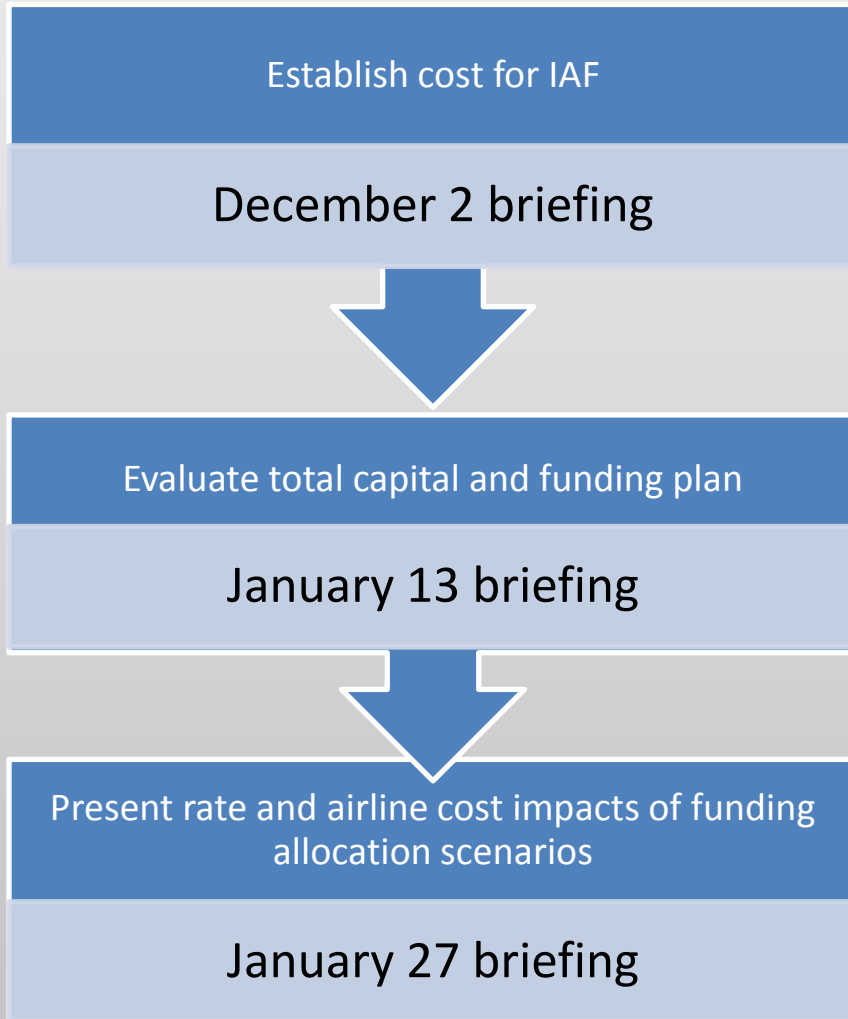
Aviation Division Capital Budget Update Briefing

January 13, 2015

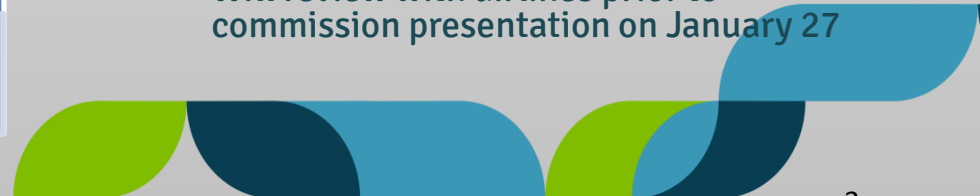
Outline

- Methodology to evaluate financial and airline cost impacts of changes to capital program and plan of finance
- Update of 2015 – 2019 capital budget
- Financing of updated capital budget
- Next steps: Develop funding scenarios and analyze implications for airport rates and airline costs

Funding Plan Update: Process



- October 7 Budget presentation - cost of IAF uncertain
- December/January cost of IAF = \$608 million
- Today, will explain proposed changes to 2015 – 2019 capital budget and airport-wide financial impacts
- Funding allocation scenarios will permit evaluation of rate impacts by cost center
 - Use of PFCs to mitigate rate base impacts
 - Will review with airlines prior to commission presentation on January 27



Policy Issue In IAF Funding Plan

- Major policy issue:
 - How does allocation of funding sources (e.g., PFCs) affect various rates and charges and, thus, cost to airlines?
- Sea-Tac likely unique in USA:
 - Airline agreement (2013 – 2017) requires all costs of IAF to be paid by users of FIS/IAF
 - Other airports have far less rigid cost accounting and rate requirements and/or explicit rate subsidies

Funding Plan Update Process

1. Overall Capital Budget changes

2. Airport-wide plan of finance

3. Identify scenarios for allocation of funding sources to cost centers

4. Calculate changes in rates (e.g., landing fee, terminal rents, FIS)

5. Calculate cost/impact for each airline

- Steps 1 and 2 will be covered today
- Steps 3 -5 covered on January 27

Capital Budget Changes

- 2015 capital budget presentation (October 7):
 - Cost estimate for IAF was preliminary – design not yet underway
 - Added 8 projects totaling \$44 million
 - Approval of 11 additional projects totaling \$47 million put on hold pending IAF cost update (“contingent projects”)
- Goal of recent analysis was to absorb as much of adjusted cost estimate of IAF as possible within existing capital budget through project cuts, project savings, deferrals and reduction of “Allowance” CIPs
 - Airport has two Allowance CIPs within capital program that accommodate future capital spending for currently undesignated capital projects (either cost increases or new projects)

Projected Capital Increases

New Capital Needs (\$000s)

Internat'l Arrivals Facility - increase	264,000
NSAT Expansion - Bag System	14,400
B2 Expansion for Delta Club	13,200
Central Terminal HVAC Upgrade	4,900
Fire Dept. Truck	1,450
Total	<hr/> 297,950

- Increased cost estimate for IAF to \$608 million
- Alaska Airlines' request to add capacity for NSAT baggage system
- Contingent projects (3 of 11):
 - B2 building area is preferred location for new Delta Club
 - “Inspansion” of terminal requires HVAC upgrade
 - New Fire truck needed to replace older truck



Projected Capital Cost Reductions

Sources of Capital (\$000s):	
<i>Cuts:</i>	
SSAT HVAC, lights, ceiling	32,543
Garage Vertical Conveyance	2,941
Other (3)	2,507
Total Cuts	37,990
<i>Savings:</i>	
Main Terminal HVAC Upgrades	7,875
Aircraft RON Parking - USPS	5,000
Single Family Home Insulation	3,000
Other (8)	6,400
Total savings	22,275
Deferred HSD Insulation	19,335
Use of Allowance CIPs	154,350
Total	233,951

- Do only modest short-term fixes to SSAT; will require major “SouthSTAR” project in future (2020+)
- HVAC improvements will be done by other existing projects
- Recognizing savings on RON hardstand project
- Fewer homes to be insulated under old Part 150 program
- Failure of Highline School District bond issue will delay school noise mitigation projects
- Allocate Allowances to known project increases



Summary of Proposed Changes

Capital Spending 2014 - 2019 (\$000s)	
October 7, 2014 Presentation	1,926,206
Savings, cuts, use of allowances	(233,951)
New capital needs	<u>297,950</u>
Net increase	63,999
Revised spending	<u><u>1,990,205</u></u>

Balance of Allowance CIPs	
Current balance	217,529
Proposed uses	<u>(154,350)</u>
Revised balance	63,179

- Total spending up by 3.3%
- Capital budget Allowances at 29% of previous level, still provides flexibility
- Will replenish Allowances with future savings:
 - Realized project savings
 - Deferred spending
 - Project cuts



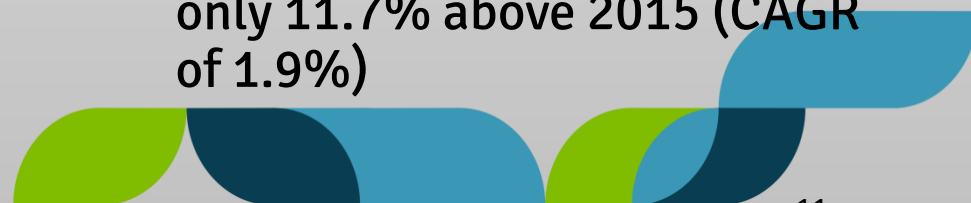
Breakout of Capital Budget Changes

2014 - 2019 Spending			
	<u>As of 10/7/14</u>	<u>As of 1/13/15</u>	<u>Change</u>
IAF	343,873	608,627	264,754
NSTAR	447,596	464,868	17,272
Baggage Optimization	229,287	229,687	400
Runway 16C/34C	99,224	106,222	6,998
Other Projects	575,226	517,622	(57,604)
Allowances	231,000	63,179	(167,821)
Total	<u>1,926,206</u>	<u>1,990,205</u>	<u>63,999</u>

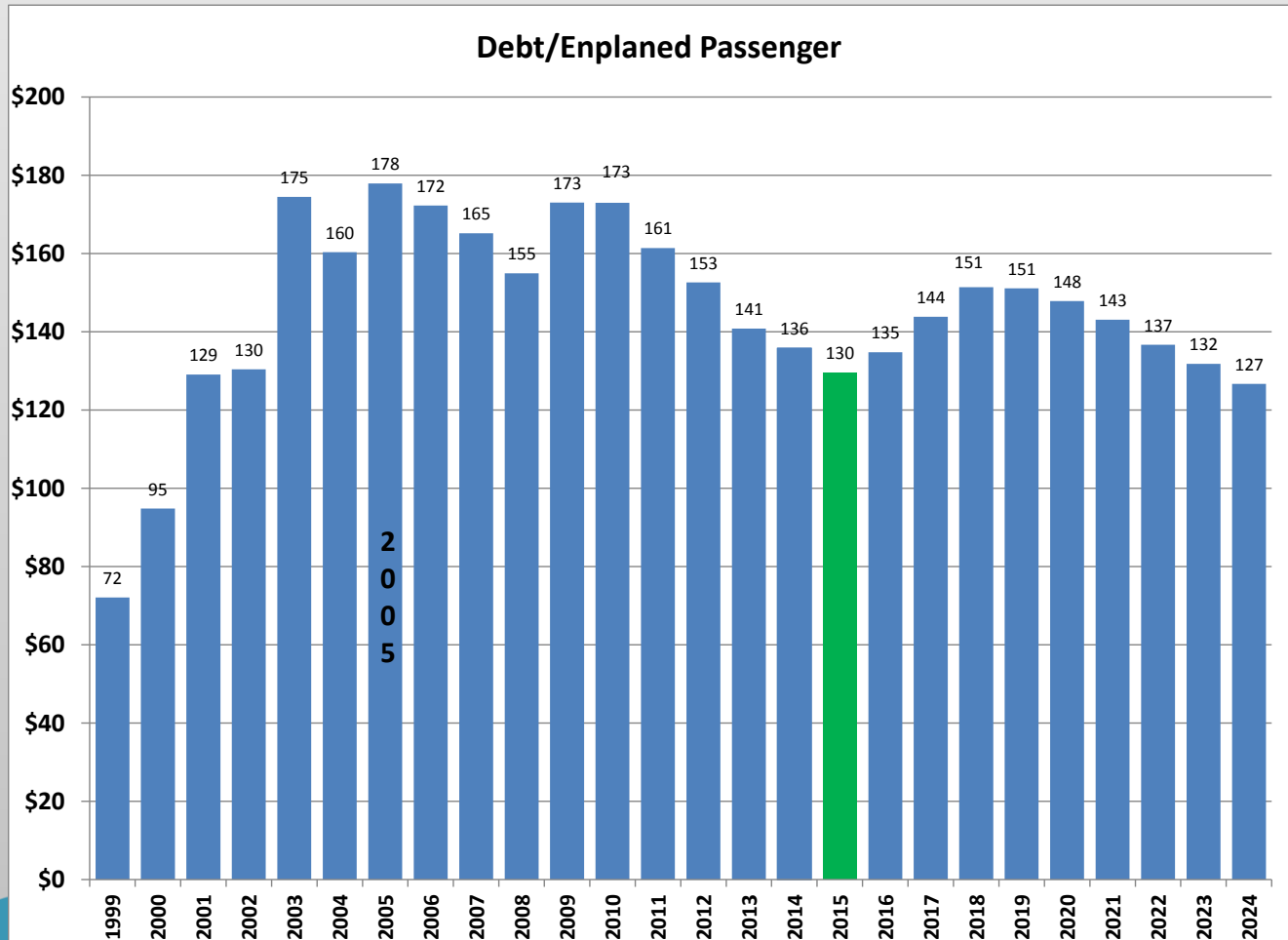
Financial Implications of Capital Budget Changes

	<u>CPE</u>	<u>DPE</u>
2013	11.90	141
Peer rank	10 of 22	11 of 19
2015	11.79	130
Forecast high - Current	15.27	151
Year of forecast high	2021	2018
Peer rank	12 of 22	11 of 19
Forecast high - Oct. 2014	14.63	144
% Change since Oct. 2014	4.4%	5.1%
Forecast high in 2015 \$	13.17	141

- Financial Implications measured by comparison to peer airports for:
 - Cost per enplanement (CPE)
 - Debt per enplanement (DPE)
- Forecasted high for CPE and DPE in targeted middle third of peer ranking
- CPE and DPE have grown moderately compared to October 2014 forecast
- 2021 CPE in constant dollars is only 11.7% above 2015 (CAGR of 1.9%)



Debt Per Enplaned Passenger – History and Forecast



- Projected high point in 2018 (\$151) well below previous high of \$178 in 2005
- 2018 high point in 2015 constant dollars = 141

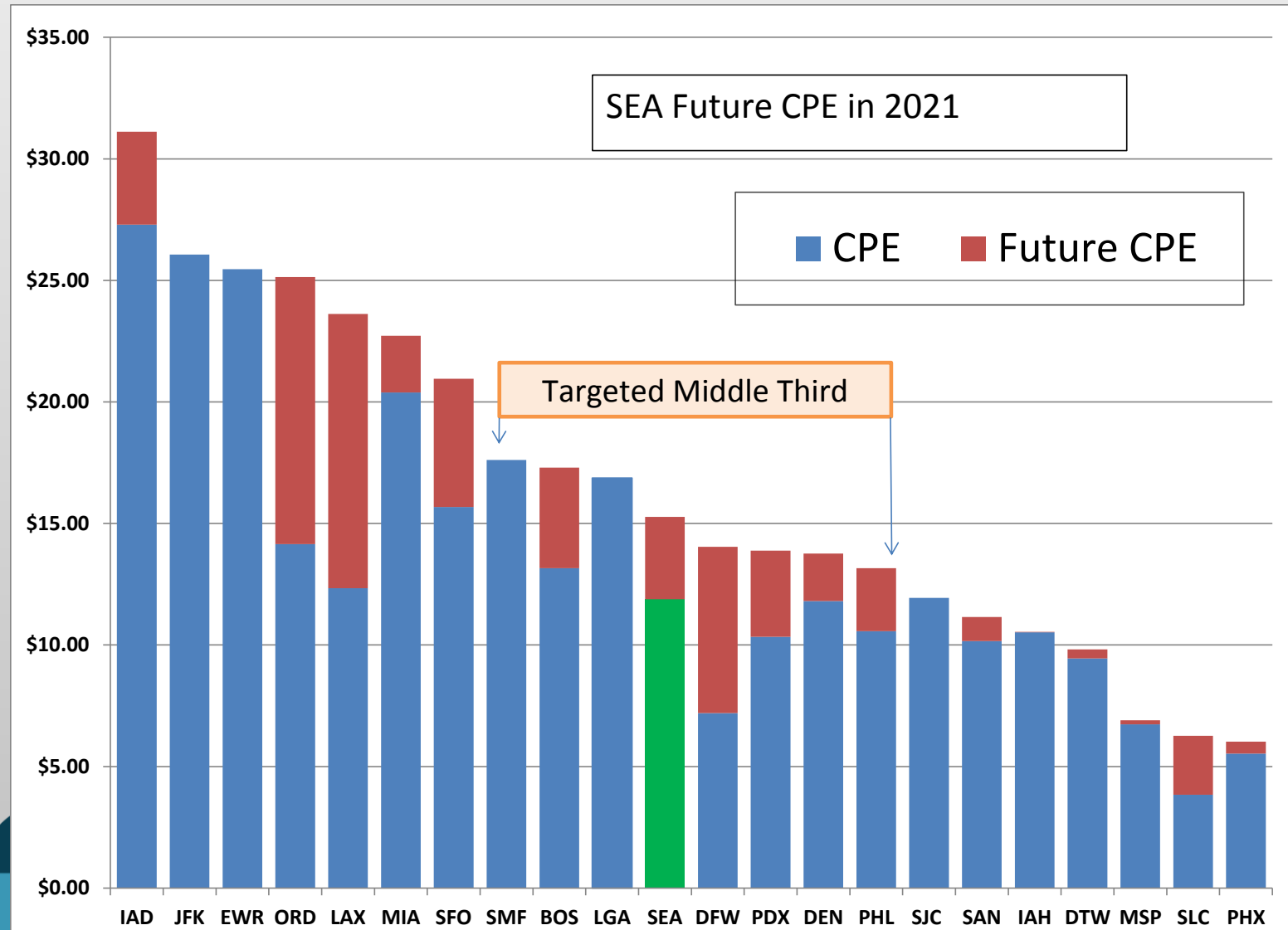
Next Steps

- Identify and evaluate scenarios for allocation of funding sources to cost centers (i.e., various allocations of PFCs and other funding sources to IAF, other terminal, or airfield projects)
- Calculate changes in rates (e.g., landing fee, terminal rents, FIS rate) for each scenario
- Calculate cost/impact by airline
- Engage airlines in review of scenarios and impacts
- Return to commission with proposed funding allocation plan on January 27
- Seek airline approval of budget increase for IAF through majority-in-interest (MII) vote

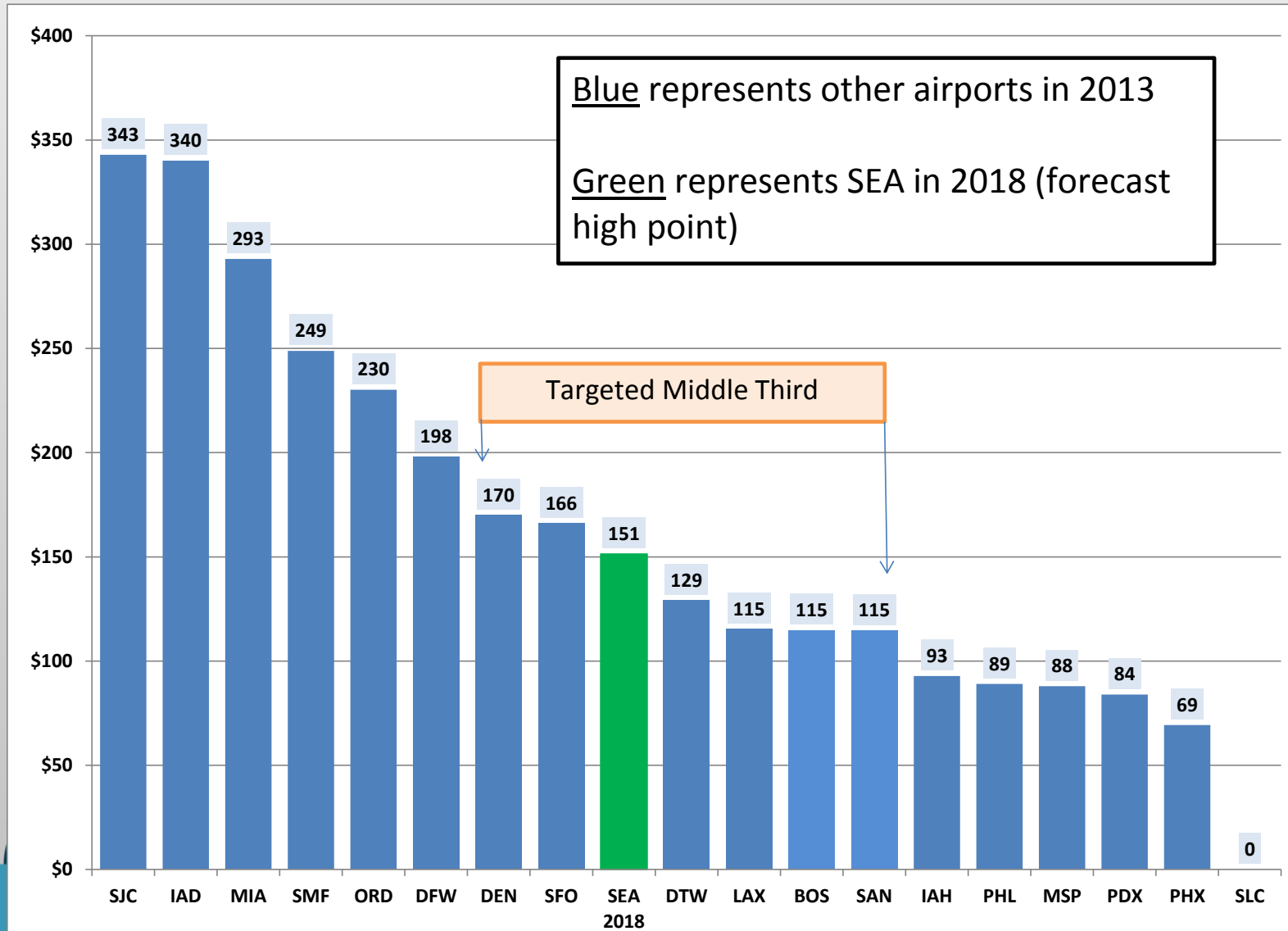


APPENDIX

Future CPE – Comparison to Peer Airports



Future Debt Per Enplanement – Comparison to Peer Airports



Debt Level – History and Forecast

