

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7a</u>
Date of Meeting	<u>January 27, 2015</u>

DATE: January 9, 2015
TO: Ted Fick, Chief Executive Officer
FROM: R. Borgan Anderson, Director, Aviation Finance & Budget
SUBJECT: International Arrivals Facility – Funding Plan Update & Fourth Quarter Report

SYNOPSIS

The focus of this briefing is to 1) present an updated capital plan to the Commission; and 2) illuminate the policy issue inherent in the funding plan for the new International Arrivals Facility (IAF), currently estimated to cost \$608 million. Under all circumstances, the Port can easily finance the capital program, including the IAF; however, by shifting the allocation of Passenger Facility Charges (PFCs) among cost centers, the Port can manage the impact airline rates, and thereby balance the benefits of PFC use.

BACKGROUND

Passenger Facility Charge revenues (PFCs) have been an important funding source for Seattle-Tacoma International Airport since 1992. Since capital costs (either construction costs or debt service on revenue bonds) paid by PFCs are excluded from the airline rate base, the use of PFCs is an important financing tool to reduce airline costs as measured by passenger airline cost per enplaned passenger (CPE). For example, the airport has used PFCs to provide important funding for such projects as the Satellite Transit System refurbishment, the expansion of Concourse A, and the construction of the Third Runway (16R/34L), thereby reducing terminal rents and landing fees paid by the airlines. In fact, since 1992, the Port has used \$972 million of PFCs for airfield and terminal projects, but has not yet used any PFC's for a project exclusively serving international flights.

The current airline agreement (SLOA III) established the Federal Inspection Services (FIS) area as a separate cost center. This means that all of the capital and operating costs associated with this cost center are recovered from only the users of this cost center (airlines with international arrivals using the FIS facility). The Port agreed to the establishment of this new cost center with the understanding that the plan of finance would be used to manage airline costs through the use of PFCs. Thus, the funding plan for the IAF has always assumed that PFCs would be used in a manner that maintained the FIS rate within the market of western North America airports.

The terms of SLOA III, together with the fact that not all airlines use the FIS facility, have created a situation where airlines have different financial interests relating to the use of PFCs by cost center. Consequently, the use of PFCs has become an important policy

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

January 9, 2015

Page 2 of 3

decision because of the impact on airline rates and payments. The presentation will show four possible funding scenarios with resulting impacts on airline rates, CPE components, and CPE by airline (example domestic and international airlines).

Based on Commission input and further input from the airlines, staff will return in late February with a refined proposed funding plan for the IAF. In March, the Port will seek airline approval for the IAF project through a majority-in-interest vote (MII). The proposed funding plan will be the basis for the financial impacts (airline rates and CPE) of the project reflected in the MII proposal. However, final decisions on the allocation of PFCs to pay debt service of projects in various cost centers will depend on the terms of the airline agreement in place at that time. (The current agreement SLOA III expires on December 31, 2017).

To use PFCs as a funding source for a project, an airport must receive approval from the Federal Aviation Administration through an application process that includes consultation with the airlines. The Port plans to develop and submit an application to use PFCs for the IAF, the North Satellite Expansion project, and the Baggage Optimization project in the spring of 2015.

ATTACHMENTS TO THIS BRIEFING

- Computer slide presentation.
- IAF Fourth Quarter report memo.
- IAF Fourth Quarter computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- January 13, 2015 – IAF Update.
- December 2, 2014 – IAF Scope and Budget Update.
- October 28, 2014 – IAF Q3 Quarterly Briefing.
- August 19, 2014 – IAF Q2 Quarterly Briefing.
- August 5, 2014 – IAF RFQ Advertisement.
- July 22, 2014 – IAF Progress Briefing.
- June 10, 2014 – IAF Update and Quarterly Briefing.
- May 6, 2014 – IAF Project Delivery Briefing.
- April 22, 2014 – Capital Program Briefing.
- March 11, 2014 – IAF Master Planning authorization.
- February 25, 2014 – IAF Program Briefing.
- November 19, 2013 – International Arrivals Facility Construction Management, testing and inspection; surveying and locating and safety service agreements.
- July 23, 2013 – International Arrivals Facility Project & Program Support; and Price Factor Design Build Methodology authorization.
- July 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- July 9, 2013 – Alternative Public Works Contracting Briefing.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

January 9, 2015

Page 3 of 3

- April 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- June 26, 2012 – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport.
- June 14, 2011 – International Air Service Growth and Future Facility briefing.
- February 2, 2010 – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta’s Proposed Airline Lounge and Other Possible Future Aviation Projects.