

Aviation Division Update on Capital Budget, Plan of Finance and Allocation of Funding Sources

January 27, 2015

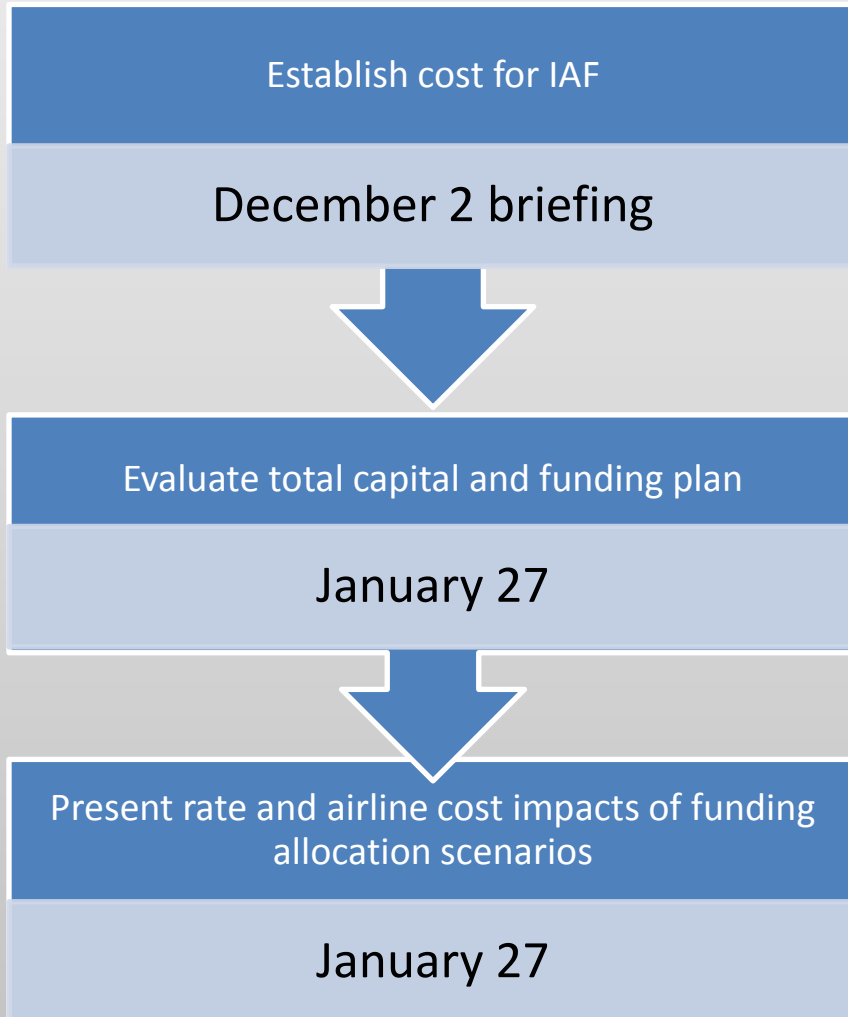
Outline

- Changes to Capital Plan
- Financing of updated capital budget
- Analysis of allocation of financing tools to different cost centers for four scenarios
 - Funding plan for IAF
 - % change in Airline rates
 - % change in CPE by cost center
 - % change by representative airlines
- Next steps



CHANGES TO CAPITAL BUDGET AND FINANCING PLAN

Funding Plan Update: Process



- October 7 Budget presentation - cost of IAF uncertain
- December/January cost of IAF = \$608 million
- Explain proposed changes to 2015 – 2019 capital budget and airport-wide financial impacts
- Funding allocation scenarios permit evaluation of rate impacts by cost center
 - Use of PFCs to mitigate rate base impacts
 - Reviewed with airlines in mid-January



Policy Issue In IAF Funding Plan

- Major policy issue:
 - How does allocation of funding sources (e.g., PFCs, cash) 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 CPE impact by cost center for representative airlines

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 as possible of adjusted cost estimate of IAF 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 (\$000s)			
	<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>

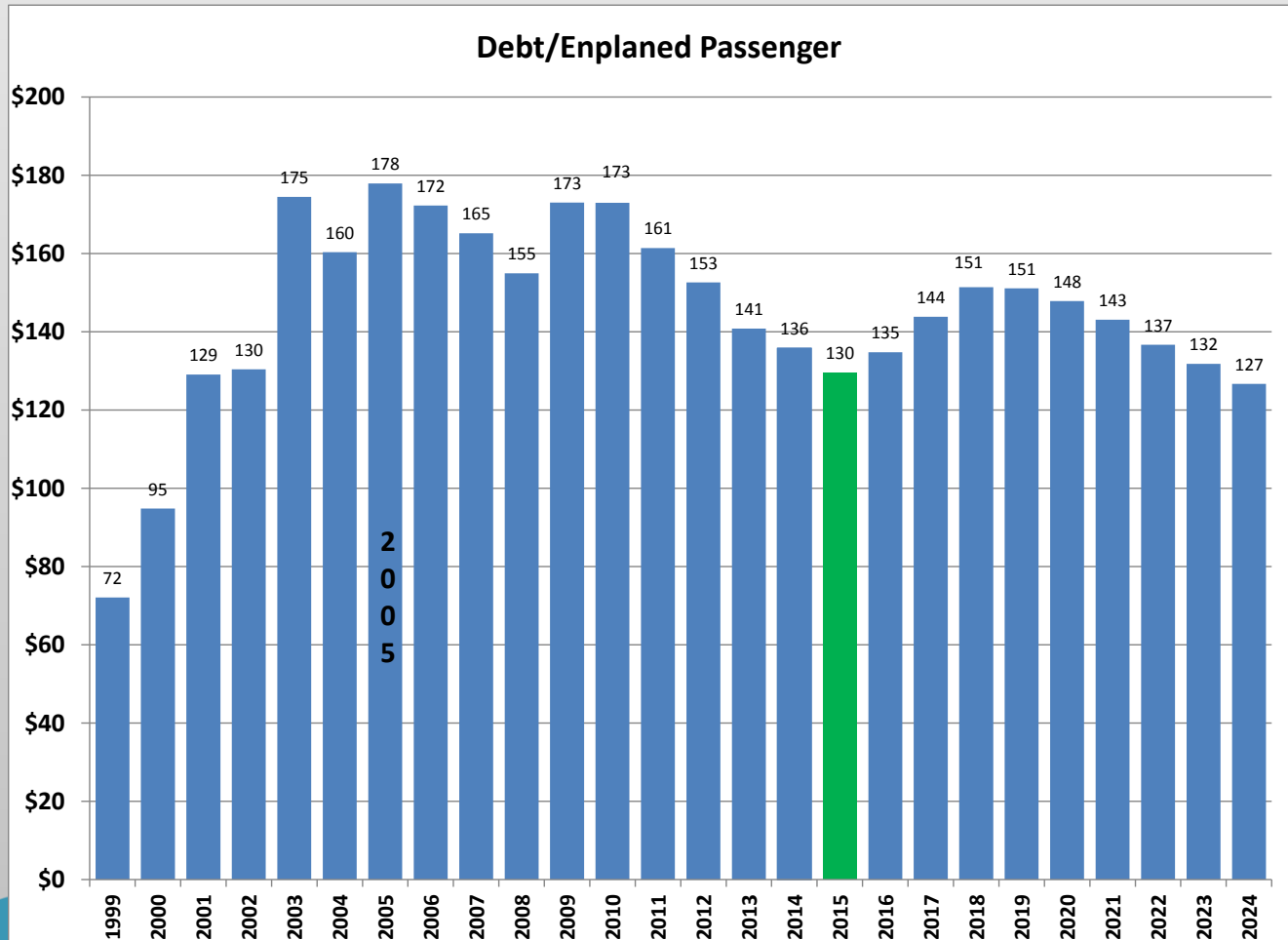
Financial Implications of Capital Budget Changes

	<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	\$15.19	\$151
Year of forecast high	2021	2018
Peer rank	12 of 22	11 of 19
Forecast high - Oct. 2014	\$14.85	\$144
% Change since Oct. 2014	2.3%	4.9%
Forecast high in 2015 \$	\$13.10	\$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

Summary of Capital Budget Adjustments/Financing

- The International Arrivals Facility (IAF) cost increase of \$264 million, together with other changes to capital program, resulted in \$64 million increase in spending
 - Resulting financial impact is modest increase in airline Cost per Enplanement (CPE) and Debt per Enplanement (DPE)
 - Future CPE and DPE remain within middle third of peer airports

ALLOCATION OF FUNDING SOURCES TO VARIOUS COST CENTERS

Background Concepts

- CPE is an industry metric measuring **total** passenger airline costs divided by total enplaned passengers. It is not a “rate” that any airline pays
 - Airlines individually have very different CPEs at SEA because their facility use varies and they have greater or lesser economies of scale
- SLOA III established multiple aeronautical cost centers
 - Airline rates are set to recover costs within a particular cost center
 - The Federal Inspection Services area (FIS) established as separate cost center
- Capital costs (direct construction costs or debt service on revenue bonds) paid with Passenger Facility Charge revenues (PFCs) are excluded from cost center rate base
- Airlines pay amortization on cash (retained earnings) invested by Port (rate established at time of investment to have same financial impact as debt service)
- SLOA III has provision allowing Port to use non-airline revenues to reduce FIS rate requirements

Background Concepts

- Allocation of PFCs to cost centers directly impacts rate bases and, thus, rates airlines pay
 - Can benefit airlines differently depending on differing use of facilities (e.g., only international carriers use FIS)
- Airport has discretion to deploy PFCs to FAA approved projects
 - IAF, North Satellite Expansion and Baggage Optimization projects are all good candidates for use of future PFCs
- Port's goal has been to maintain competitive rates throughout the airport
 - The Port's agreement in SLOA negotiations to make FIS a separate cost center was predicated on the assumption that the plan of finance (use of PFCs) could be used to achieve a competitive FIS rate.

Historical Use of PFCs

Cost Center	1992 - 2013	Percent
Airfield (including Noise)	558,726,500	57%
Terminal	413,462,500	43%
FIS	-	0%
Total	972,189,000	

- PFCs have been used to pay for 100% of revenue bond debt service for Third Runway, significantly reducing the rate impact on the landing fee.
- Major terminal projects benefiting from PFCs include Concourse A and Satellite Transit System



Funding Plan for IAF

- With separate FIS cost center, use of PFCs to mitigate rate impact has been key element of funding plan
 - Cash fund construction costs: Port has been accumulating PFCs to provide ability to cash fund (“pay-go”) significant portion of construction cost.
 - Pay revenue bond debt service: Port can pay some, most or all of revenue bond debt service (DS)
- While many different funding plans could be evaluated, four scenarios highlight policy issue relating to use of PFCs by cost center

Scenarios – Options for Allocation of PFCs

2015 Budget (and plan of finance)

- IAF cost estimate of \$344 million, PFCs pay 100% of IAF debt service
- 1. Continue to use PFCs to pay 100% of IAF debt service**
 - For 2019 – 2021 only, shift \$14.7 million of PFCs from paying airfield debt service to IAF debt service
 - Sea-Tac FIS rate at high end of projected market rate
- 2. PFCs pay no debt service associated with \$264 million IAF cost increase**
 - Same amount of PFCs allocated to IAF as with \$344 million cost estimate
 - Increased capital cost goes directly to FIS rate base
 - FIS rate almost twice as high as highest market rate

Scenarios – Options for Allocation of PFCs

3. All IAF capital costs excluded from rate base

- In addition to large PFC allocation, do not amortize cash investments in IAF only (offset with non-aero revenues per SLOA III section 8.4.4, or similar provision in “SLOA IV”)
- FIS rate at low end of market range

4. Variation on Scenario 1 (pay all IAF debt service with PFCs): In addition, shift some PFCs used to pay airfield debt service to pay terminal debt service and, thus, balance rates throughout airport

- Landing fee stays constant after 2020 rather than decreases; terminal rent increase moderated

Funding Plans for IAF

Funding Source	2015 Bud Plan of Fin.		Scenarios			
	\$000s	%	1, 3, 4		Scenario 2	
	\$000s	%	\$000s	%	\$000s	%
Cash	68,800	20%	121,673	20%	121,673	20%
PFC - pay go	137,709	40%	157,874	26%	137,709	23%
Revenue Bonds	137,491	40%	328,818	54%	348,983	57%
Total	344,000		608,365		608,365	

- All scenarios assume 20% of IAF costs are not eligible for PFCs and are funded with cash (Airport Development Fund)
- Cash investments are amortized in all scenarios except 3 so that rate impact is effectively the same as debt service
- PFC – pay go contributions do not impact airline rates
- Revenue bonds are paid by either or both of PFCs (not included in rates) and airline rates and charges
- Scenario 2 matches amount of PFCs used when cost estimate was \$344 million



Airline Rate Impacts

Scenario	Percent Change 2015 - 2022		
	FIS Rate	Landing Fee Rate	Average Terminal Rents
2015 budget	58%	-2%	52%
1	83%	1%	46%
2	219%	1%	37%
3	34%	1%	46%
4	80%	13%	41%

2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

Scenario 1: Use PFCs to pay 100% of IAF debt service

Scenario 2: PFCs pay no debt service associated with \$264 million IAF cost increase

Scenario 3: All IAF capital costs excluded from rate base

Scenario 4: Scenario 1 plus reduce PFCs allocated to airfield/landing fee to balance rates throughout airport

- **FIS rate:**
 - Increasing significantly under all scenarios
 - #2 results in very high FIS rate
- **Landing Fees:**
 - #4 shows impact of shifting PFCs from Airfield to Terminal
- **Terminal rents:**
 - Shift of PFCs from IAF to terminal (#2) softens rate impact on terminal
- **Use of PFCs has greatest impact on FIS rate**



FIS Rates

Scenario	FIS Rate		
	2015	2022	% Change
2015 budget	7.40	11.70	58%
1	7.40	13.57	83%
2	7.40	23.61	219%
3	7.40	9.92	34%
4	7.40	13.32	80%

Note: Average FIS rate for peer airports in 2022 is estimated at \$11.00 - \$13.00.

2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

Scenario 1: Use PFCs to pay 100% of IAF debt service

Scenario 2: PFCs pay no debt service associated with \$264 million IAF cost increase

Scenario 3: All IAF capital costs excluded from rate base

Scenario 4: Scenario 1 plus reduce PFCs allocated to airfield/landing fee to balance rates throughout airport

Landing Fees

Scenario	Landing Fee		% Change
	2015	2022	
2015 budget	3.48	3.42	-2%
1	3.48	3.50	1%
2	3.48	3.50	1%
3	3.48	3.50	1%
4	3.48	3.92	13%

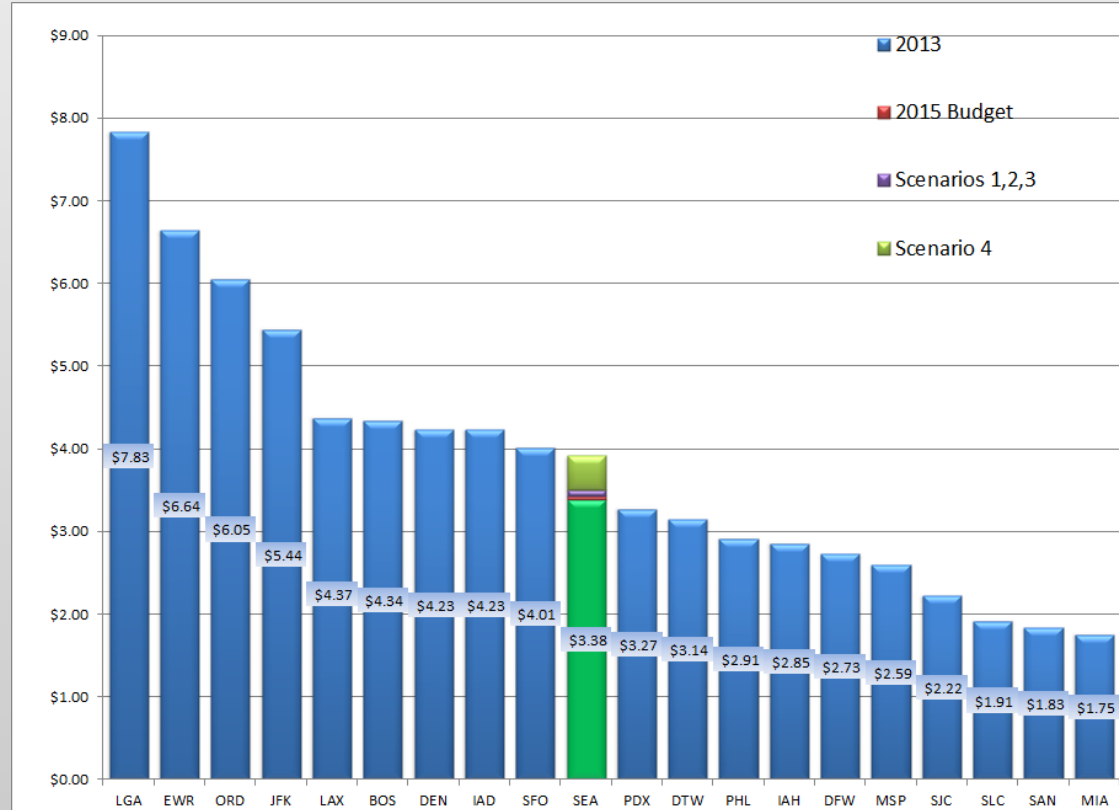
2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

Scenario 1: Use PFCs to pay 100% of IAF debt service

Scenario 2: PFCs pay no debt service associated with \$264 million IAF cost increase

Scenario 3: All IAF capital costs excluded from rate base

Scenario 4: Scenario 1 plus reduce PFCs allocated to airfield/landing fee to balance rates throughout airport



Terminal Rents

Scenario	Terminal Rents		
	2015	2022	% Change
2015 budget	109.60	166.59	52%
1	109.60	160.03	46%
2	109.60	149.99	37%
3	109.60	160.10	46%
4	109.60	155.03	41%

- Terminal rents increasing under all scenarios reflecting major investments
- Size of terminal rate base (cost of assets) reduces impact of PFCs on rate changes

2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

Scenario 1: Use PFCs to pay 100% of IAF debt service

Scenario 2: PFCs pay no debt service associated with \$264 million IAF cost increase

Scenario 3: All IAF capital costs excluded from rate base

Scenario 4: Scenario 1 plus reduce PFCs allocated to airfield/landing fee to balance rates throughout airport



CPE By Cost Center

Scenario	CPE By Cost Center			Total CPE
	Percent Change 2015 - 2022			
	FIS	Airfield	Terminal	
2015 Budget	78%	3%	34%	26%
1	108%	4%	36%	28%
2	260%	3%	27%	29%
3	54%	5%	38%	27%
4	104%	14%	31%	28%

- Airport CPE will increase from \$11.79 in 2015 to between \$15.00 and \$15.20 in 2022, depending on the scenario
- Terminal and Airfield are largest cost components of CPE, so change in use of PFCs has less impact
- FIS, being a smaller cost component of CPE is more sensitive to changes in use of PFCs

2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

Scenario 1: Use PFCs to pay 100% of IAF debt service

Scenario 2: PFCs pay no debt service associated with \$264 million IAF cost increase

Scenario 3: All IAF capital costs excluded from rate base

Scenario 4: Scenario 1 plus reduce PFCs allocated to airfield/landing fee to balance rates throughout airport



CPE by Cost Center for Representative Airlines

Scenario	CPE By Cost Center for Representative Domestic & Int'l Airline Percent Change 2015 - 2022						Terminal Cost Components of CPE			
	FIS		Airfield		Terminal		2015		2022	
	Domest.	Int'l	Domest.	Int'l	Domest.	Int'l	Domest.	Int'l	Domest.	Int'l
2015 budget	0%	81%	3%	3%	36%	45%	6.68	12.53	9.06	18.14
1	0%	111%	3%	3%	37%	50%	6.69	12.54	9.19	18.79
2	0%	264%	2%	3%	28%	40%	6.69	12.54	8.59	17.57
3	0%	56%	4%	4%	39%	51%	6.69	12.54	9.29	18.98
4	0%	106%	13%	14%	32%	44%	6.69	12.54	8.85	18.10

- Assumed each airlines share of airport costs will be the same in 2022 as in 2013
- Individual airlines can have different financial interests for the use of PFCs
- Domestic airlines don't pay FIS fees
- Airfield costs paid proportionately by both domestic and international airlines
- Terminal cost increases impact representative international carrier comparatively more than domestic airline due to volume efficiencies



Conclusion & Next Steps

- As long anticipated, major investments will cause airport costs (CPE) to increase from 2015 – 2022.
- Achieving a balanced approach to rate impacts requires strategic use of PFCs and consideration of not charging amortization fee for use of cash
- Staff recommends that Port develop funding allocation plan that is based on:
 - FIS rate within market
 - Airline input on allocation of PFCs between terminal and airfield cost centers
- Next steps:
 - More detailed analysis will be undertaken and reviewed with airlines before returning to Commission for policy guidance (February 27)
 - Seek airline approval for IAF through MII vote (March, 2015)
 - Seek FAA approval to use PFCs for IAF, NSAT and Baggage Optimization projects (Q2, 2015)

APPENDIX

Peer Airport FIS Rates

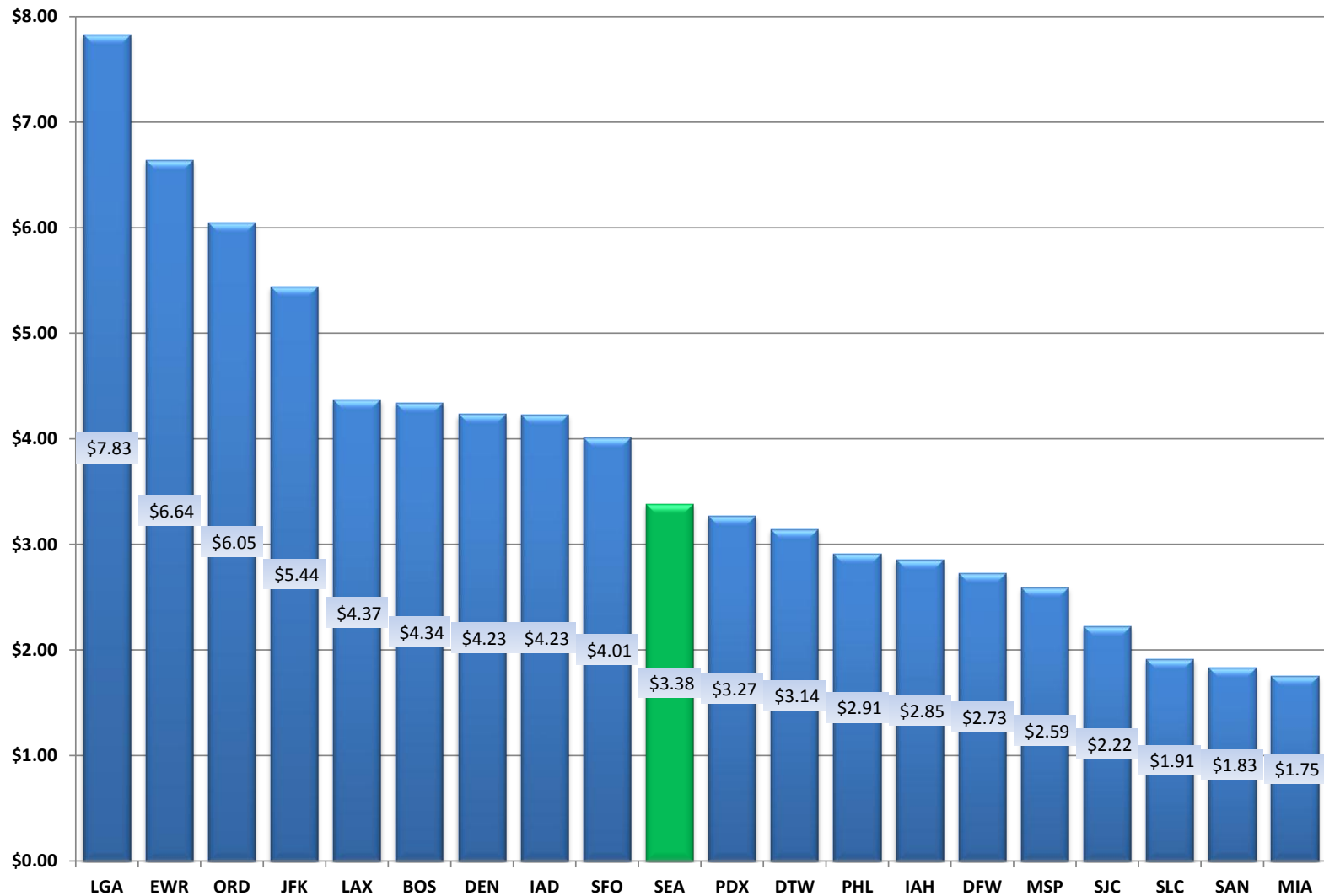
Airport	Current 2013-2014	Comments
Denver	6.65	Not cost recovery. Increase 2-3% per year
Portland	6.00	Rate is a step function based on the number of passengers. The derived rate would be \$4.00 - \$8.00 per passenger
San Francisco	8.96	Derived average cost per passenger. Part of Int'l facility joint use fee (80/20).
Los Angeles	9.50	Signatory rate
Vancouver	12.42	Terminal fee based on # of seats, with differential for domestic and int'l. Also a turn fee for int'l. FIS fee derived.
SeaTac (2015)	7.40	Signatory rate, full cost recovery

- Difficult to forecast FIS rates for other airports. \$12 - \$14 likely at high end of “market” in 2019-2022

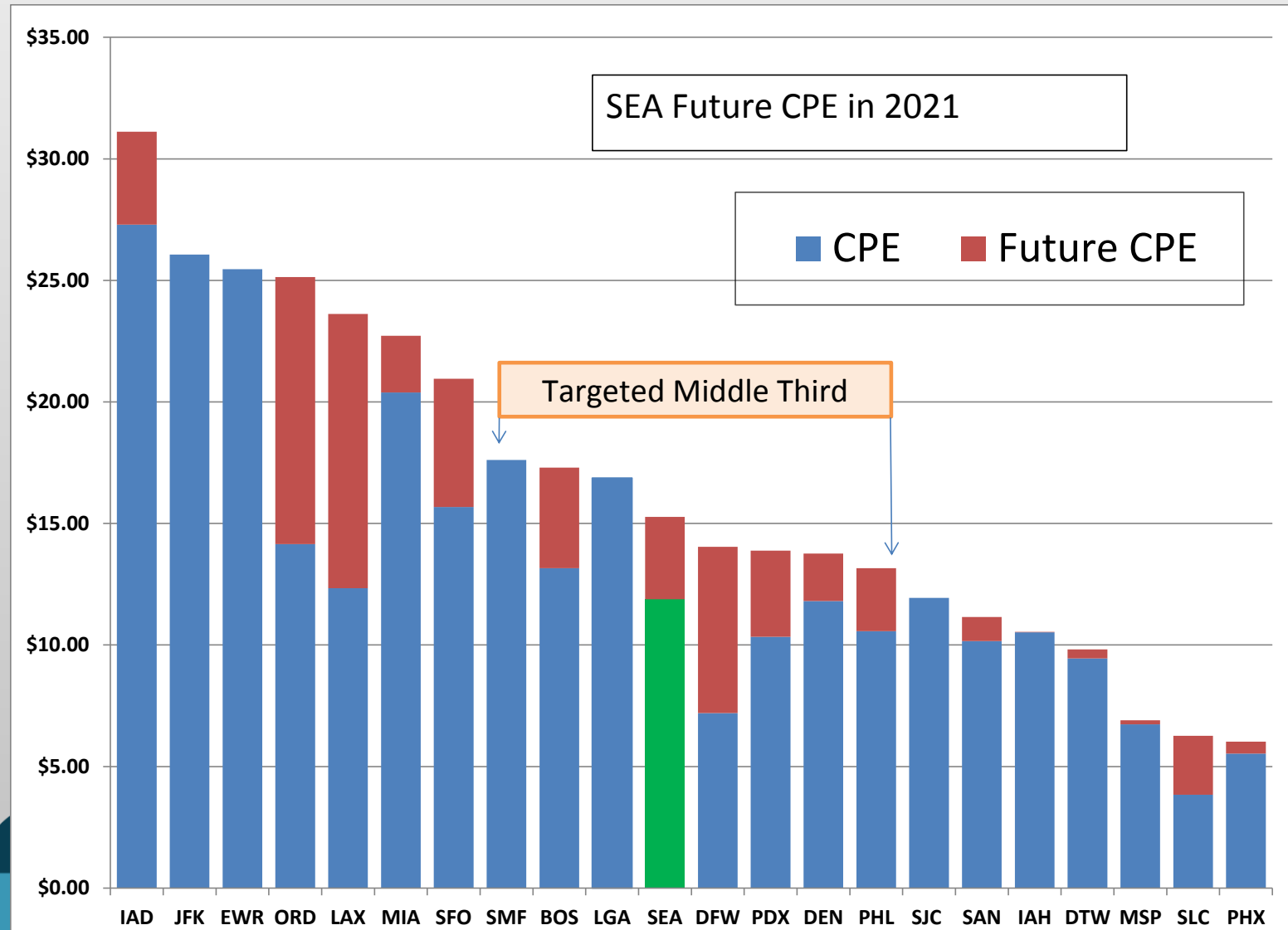


Peer Airport Landing Fees

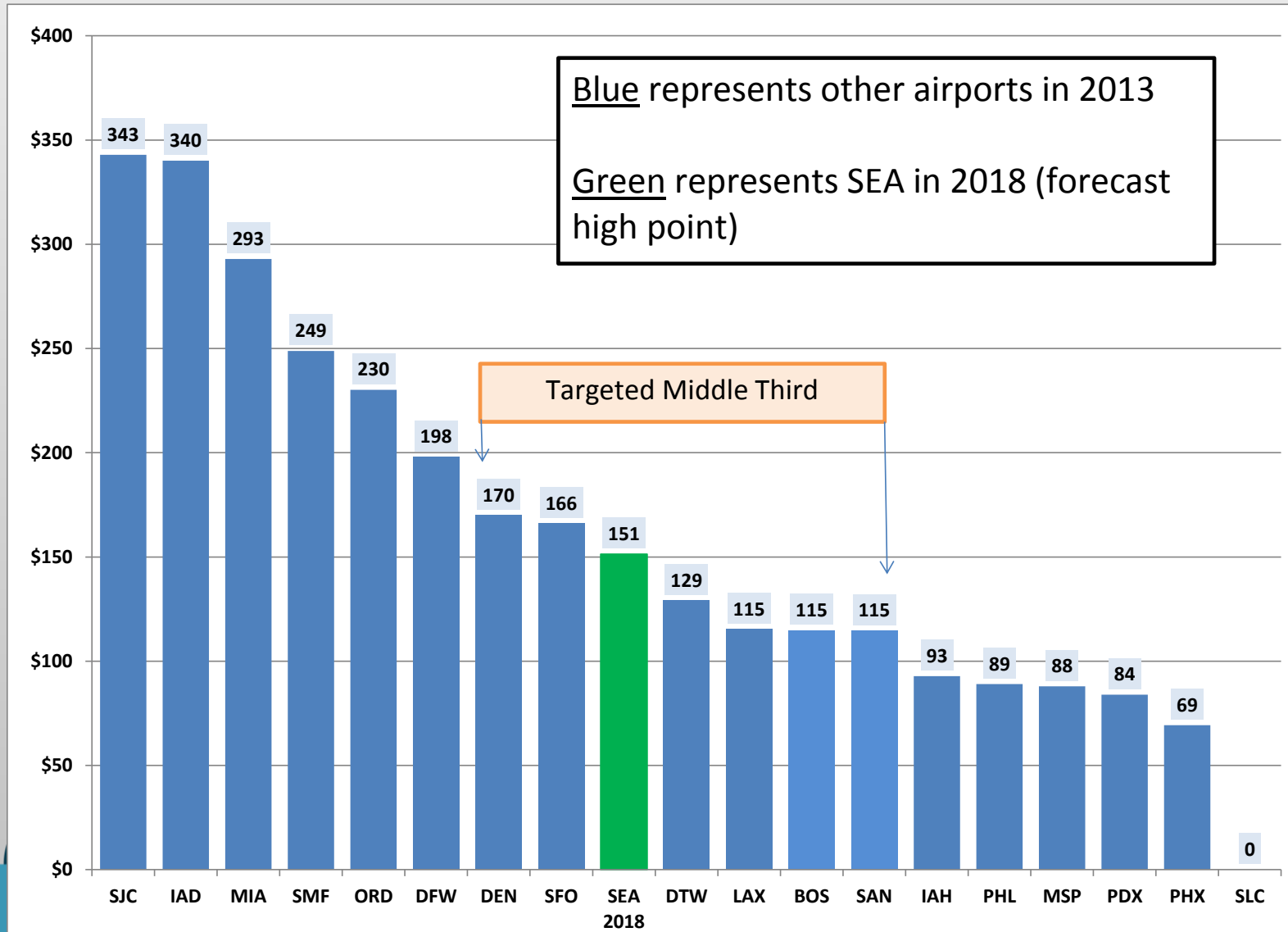
2013 Landing Fees Rate For Peer Airports



Future CPE – Comparison to Peer Airports



Future Debt Per Enplanement – Comparison to Peer Airports



Debt Level – History and Forecast

