PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7b

Date of Meeting April 14, 2015

DATE: March 27, 2015

TO: Ted Fick, Chief Executive Officer

FROM: R. Borgan Anderson, Director, Aviation Finance & Budget

SUBJECT: International Arrivals Facility – Funding Plan Update

SYNOPSIS

The focus of this briefing is to:

1) Update the Commission with new information on future FIS rates at competing airports and on the importance of the FIS rate for an airline contemplating new international service at Sea-Tac
2) Present two new funding scenarios, and
3) Present a recommended funding plan and a set of principles to guide the ongoing evolution of the funding plan as conditions change.

BACKGROUND

On January 27, 2015, staff provided the Commission with changes to the Aviation capital program in order to accommodate the cost increase of the IAF. Staff communicated that the total capital plan for 2015 – 2019 can be easily funded while maintaining airline cost levels (as measured by cost per enplaned passenger, or CPE) and debt levels (as measured by debt per enplaned passenger) well within the middle third of peer airports. The importance of using Passenger Facility Charge revenues (PFCs) to manage costs within cost centers was highlighted as an important policy decision. Use of PFCs helps maintain reasonable rates such as the Federal Inspection Services (FIS) rate paid by airlines with international arrivals.

Since the January presentation, the Port contracted with consultants to better understand future FIS rates at competing airports and to quantify the importance of FIS costs to an airline contemplating introducing new international service at Sea-Tac. Both of these studies point to the importance of maintaining a future FIS rate that is within the range of our competing airports (the “market” rate). If Sea-Tac has an FIS rate well above our competitors, it would likely put Sea-Tac at a disadvantage for retaining and attracting new international service.

Staff has incorporated analysis of two more scenarios to further demonstrate how funding tools can be used to manage the ultimate FIS rate. One of these scenarios was suggested by Alaska Airlines at the January 27 meeting. This scenario limits the amount of PFCs to be used to fund the IAF to 10% of PFC collections each year, approximately the current percentage of international passengers. The other new scenario reflects a more significant Port contribution of its cash to reduce both the reliance on PFCs and to reduce the amount of debt required. With this scenario, the Port would exclude the amortization on this cash from the rate base (using the provision in Section 8.4.4 of the airline agreement permitting the Port to use non-aeronautical revenues to offset FIS costs). This scenario will be presented as the recommended funding plan as it achieves the goal of maintaining the FIS rate within the market range.

Staff will also recommend agreement on a set of principles to guide adjustments to the funding plan as conditions change: 1) maintaining market CPE and 2) maintaining market rates across the Airport (landing fees, terminal rents and FIS rate). For the FIS rate, the cost impact of the IAF will not be incorporated into the rate until the facility is completed in 2019. There remain many uncertainties that could impact the future FIS rate. Those include ultimate cost of IAF ($608 million is based on zero percent design), growth in international passengers, maximum allowable PFC level, and market FIS rates at competing airports. Basing the funding plan on these principles will guide periodic updates to the funding plan as conditions change. The two new scenarios and the recommended funding principles were presented to the airlines on March 19.

Based on Commission input staff will refine the proposed funding principles and funding plan for the IAF as needed. In May, the Port will seek airline approval for the IAF project increased cost through a majority-in-interest vote (MII). The agreed upon funding plan will be the basis for the financial impacts (airline rates and CPE) of the project reflected in the MII proposal. The funding plan will also serve as the basis for the financial forecast used in preparation for the upcoming revenue bond issue.

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 late 2015 or early 2016.

ATTACHMENTS TO THIS BRIEFING

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- January 27, 2015 – IAF Funding Plan Update
- April 22, 2014 – Airport capital program and funding update