

Item Number: 7b

Date of Meeting: April 14, 2015

Revised April 13, 2014

International Arrivals Facility (IAF) Funding Plan Update

Port Commission

April 14, 2015



Port 
of Seattle®

Background/Context

- Sea-Tac's international "front-door" is unwelcoming and has inadequate capacity
- Port's responsibility is to encourage, not discourage, international service to serve region
- New IAF will match capacity with demand
- Commission authorized procurement of design-build contractor
- Key issue now is best, appropriately balanced funding plan

Purpose of Briefing

- Need commission direction regarding:
 - Principles guiding IAF funding plan
 - Funding plan assumptions
- Funding plan needed for:
 - Bond issue financial forecast
 - This bond issue funds 16C, NorthSTAR, etc., **not IAF**
 - Majority-in-interest by airlines for IAF project

Commission guidance will drive update to airport financial plan

January 27 Briefing Highlights

- Because airline rates are based on cost recovery, increased capital spending will increase airline costs
- Current IAF estimate is \$608 million; through design-build process, will work with all stakeholders to deliver needed scope at lower cost
- Even with \$608 million IAF, capital plan is affordable
 - Sea-Tac will rank in middle third of peer airports for Cost per Enplanement and Debt per Enplanement
- Costs funded with Passenger Facility Charges (PFCs) are excluded from rate base, moderating airline rate impacts of those projects
- IAF/FIS costs treated uniquely in SLOA III
 - IAF costs paid **exclusively** by FIS users
 - All other terminal costs (like NSAT expansion) affect rates paid by **all** airlines
- Federal rules and SLOA provide tools to moderate future FIS (IAF) rates:
 - PFCs
 - Port can choose not to amortize (charge a fee for use of) cash investments (Section 8.4.4)

Funding Plan and Rates

- Final funding plan will affect FIS rate when facility opens (2019)
- Significant changes possible prior to 2019:
 - Ultimate cost of IAF may be different from current estimate (\$608 million based on zero percent design)
 - International service growing faster than domestic
 - Congress could increase PFC cap
 - The “market” FIS rate at other airports could change

Recommendation: Port should establish principles for funding and adjust as circumstances change:

Maintain competitive CPE

Maintain competitive rates: landing fee, terminal rents, FIS

Updates Since Last Briefing

- Contracted with consultant to project 2019 FIS rates at competitive airports
- Contracted with consultant to develop pro-forma for new entrant
- Modeled two new scenarios
- Calculated cumulative use of PFCs over long time horizon
- Presented new scenarios to airlines on 3/19
- IAF airline liaison surveyed international airlines re perspectives on IAF need and fees



Airline Perspectives

- Airline Technical Representative for IAF surveyed airlines:
 - FIS “needs to be replaced as soon as possible.”
 - An FIS rate in “low to mid-range of West Coast gateways is preferred.”
 - Request Port staff to begin planning “to upgrade South Satellite ... as soon as practical.”
 - Port should develop protocols for future IAF gate assignments
 - Port should consider scope change to “maximize the eventual number of A Concourse ... international gates available to all.”

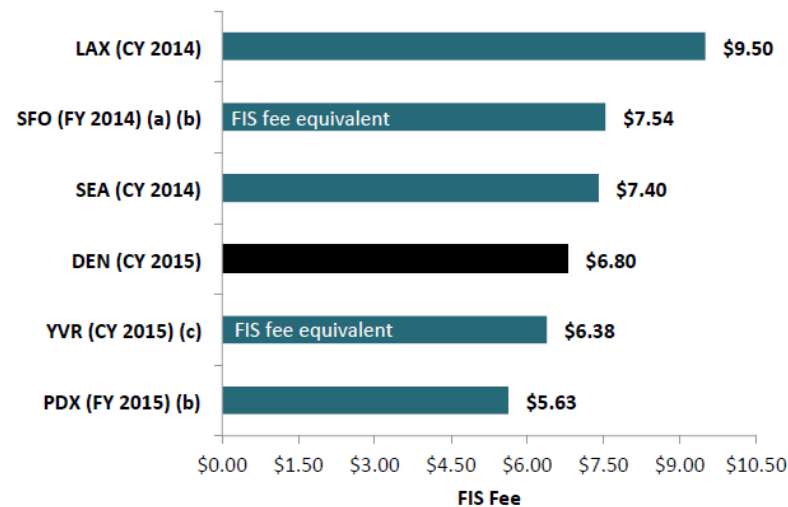
FIS Rates – Competing Airports

*Draft: for review and revision,
not for publication*

Current FIS Fees at Peer Airports

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Current FIS Fee or FIS Fee Equivalent



(a) FIS fee equivalent equal to estimated FIS requirement per international arriving passenger. Does not make adjustments for international arriving passengers that pre-clear and do not pay an FIS fee.

(b) Fiscal Year ending June 30.

(c) FIS fee equivalent equal to difference in Domestic Terminal Building (DTB) and International Terminal Building (ITB) general terminal fees on a per arriving international passenger basis--assuming 250 seats for a domestic flight; 250 seats for international flight; and a 75% load factor.

See individual airport pages in this presentation for source information at each airport.

Conclusion: SEA 2015 FIS rate is now in middle of market

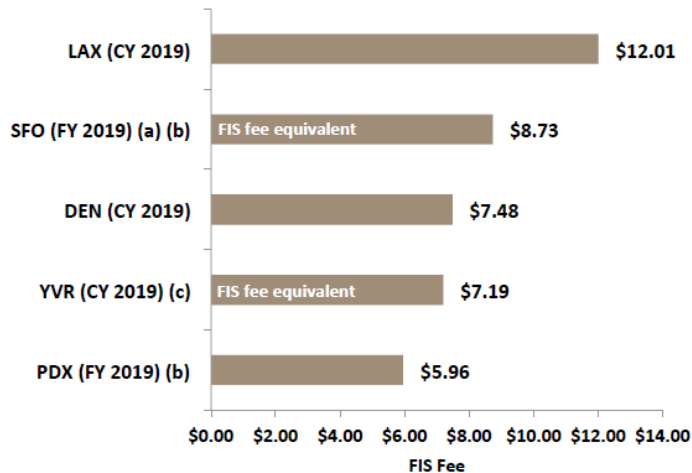
Projected 2019 FIS Rates

*Draft: for review and revision,
not for publication*

Projected FIS Fees at Peer Airports

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Projected 2019 FIS Fee or FIS Fee Equivalent



- The basis for projected 2019 FIS fees differs for each peer airport
- The approach and methodology used to project 2019 FIS fees at peer airports are described later in this document

(a) FIS fee equivalent equal to projected FIS requirement per international arriving passenger. Does not make adjustments for international arriving passengers that pre-clear and do not pay an FIS fee.

(b) Fiscal Year ending June 30.

(c) FIS fee equivalent equal to difference in estimated CY 2019 Domestic Terminal Building (DTB) and International Terminal Building (ITB) general terminal fees (based on CY 2015 fees with 3% annual inflation) on a per arriving international passenger basis--assuming 250 seats for domestic flight; 250 seats for international flight; and 75% load factor.

- Implications:
 - LAX rate is most comparable to SEA, but subsidized with revenue sharing
 - PDX and DEN rates are directly subsidized
 - SFO and YVR do not charge FIS fees. FIS rate is a derived equivalency

Conclusion: High end of market range is \$12.01 in 2019

Importance of FIS Rate for Potential New Entrant

Annual results - Year 3				
Revenues (\$000s)	81,925			
Operating profit (\$000)	2,458			
Operating Margin	3.0%			
FIS rate Scenarios:	Current	Future Rate Scenarios		
FIS Rate	\$7.40	\$12.00	\$24.00	\$32.00
Annual FIS cost (\$000)	648	1,051	2,102	2,803
FIS cost as % of revenues	0.8%	1.3%	2.6%	3.4%
FIS cost as % operating profit	26.4%	42.8%	85.5%	114.0%

- Table shows projections for third year of service for new entrant
- New entrant would have tight operating margins until route is well established.

Conclusion: FIS rate could have significant impact on route profitability, and thus decision to enter market

CPE as Indicator of Domestic Rates and Costs

CPE Components - 2015	\$000s	%
Landing fees	72,304	29%
Apron fees	8,542	3%
Terminal	155,858	63%
FIS	10,360	4%
Passenger airline costs	247,064	

- Overall CPE is within middle third of peer airports (see Appendix)
- Landing fee is within middle third of peer airports (see Appendix)
- FIS and apron fees represent very small percentage of total
- Airport terminal rent structures are highly individualized and hard to compare; however, because CPE and Landing Fee are in middle third, terminal costs must also be in middle of range

Conclusion: Costs and rates for domestic carriers must be within “market”

Summary of what we have Learned

- Current and forecasted CPE at Sea-Tac are within middle third of peer airports
- Current rates for landing fee, terminal rents and FIS are within “market” range of peer airports
- Methodologies to set FIS rates vary significantly
- Best estimate of high end of FIS market rate in 2019 (year IAF will open) is \$12
- Airport costs matter for prospective new entrant for international route. FIS is one cost that stands out since it is uniquely paid by international carriers

Conclusion: Maintaining market CPE and market rates is critical to retaining service and attracting new service.

Scenario Descriptions

Previously Presented Scenarios

- 1. Use PFCs to pay 100% of revenue bond debt service
 - \$157 million PFCs used for IAF construction costs
- 2. PFCs pay no debt service related to IAF cost increase (\$264M)
 - \$138 million PFCs used for IAF construction costs
- 3. All IAF capital costs excluded from FIS rate base
 - \$157 million PFCs used for IAF construction costs
 - \$122 million cash used for IAF construction costs, amortization excluded from rate base (paid by non-aero revenues per SLOA section 8.4.4)
- 4. Variation on #1 (not included going forward)
 - Decisions on shifting PFCs between airfield and terminal cost centers to achieve market rates will be part of annual funding plan updates.

New scenarios will be analyzed with scenarios 1, 2 and 3.

Scenario Descriptions

New Scenarios

- 5. Alaska's proposal: PFCs allocated to IAF limited to 10% of annual PFC collections for construction costs and debt service
 - \$39 million PFCs used for IAF construction costs
 - Generates high FIS rate
- 6. Increase use of cash:
 - \$100 million PFCs allocated to IAF construction costs.
 - \$200 million Port cash investment, with amortization excluded from rate base (paid by non-aero revenues, per SLOA section 8.4.4)

Scenario Funding Plans and FIS Rates

	Scenarios				
	1	2	3	5	6
Construction Funding					
Cash (ADF)	121,673	121,673	121,673	121,673	200,000
PFC Pay Go	157,874	137,709	157,874	39,156	100,000
Revenue bonds	328,818	348,983	328,818	447,536	308,365
Total	608,365	608,365	608,365	608,365	608,365
2020 FIS Rate Base Costs					
Baseline FIS costs	15,952	15,386	15,980	14,830	15,740
Amortization IAF	8,087	8,087	8,087	8,087	13,292
Debt service IAF	30,867	32,760	30,867	42,011	28,947
Rate base	54,906	56,233	54,934	64,928	57,979
DS paid with PFCs	(30,867)	(12,907)	(30,867)	(8,550)	(23,513)
Excluded amortization	-	-	(8,087)	-	(13,292)
Adjusted rate base	24,039	43,326	15,980	56,378	21,174
FIS Rate	13.62	24.55	9.06	31.95	12.00

- FIS rate base reduced if use more PFCs for construction
- Adjusted rate base reduced by using PFCs and non-aeronautical revenues to offset annual debt service costs

Scenario 6 achieves market FIS rate while freeing up PFCs for other projects.

Financial Implications of Scenarios

	Scenarios				
	1	2	3	5	6
Key Measures in 2020					
CPE	14.89	14.98	14.70	15.05	14.62
Debt service coverage	1.32	1.33	1.30	1.34	1.29
Revenue sharing (\$000)	15,848	17,533	11,805	19,207	8,856
Debt/Enplanement	146.6	146.5	146.8	146.5	147.1
Debt outstanding (\$000)	3,289,098	3,287,356	3,293,950	3,258,600	3,300,962

- Scenario 6, by excluding amortization on \$200 million of Port cash, results in lowest CPE, but also lowest debt service coverage, revenue sharing and highest debt and debt per enplanement
 - Represents significant commitment of Port resources

Scenario 6 impacts Port's financial performance but achieves market rate objectives

Rate Changes: 2015 - 2022

COST CENTER	Scenarios				
	1	2	3	5	6
Landing Fee					
2015	3.48	3.48	3.48	3.48	3.48
2022	3.50	3.50	3.50	3.50	3.51
Percent Change	0.5%	0.5%	0.5%	0.5%	0.8%
Terminal Rents					
2015	109.60	109.60	109.60	109.60	109.60
2022	160.65	149.34	160.72	142.81	153.83
Percent Change	46.6%	36.3%	46.6%	30.3%	40.4%
FIS					
2015	7.40	7.40	7.40	7.40	7.40
2022	13.76	23.83	9.50	30.49	12.00
Percent Change	85.9%	221.9%	28.3%	311.9%	62.1%

- After Runway 16C reconstruction, no major airfield investments
 - By 2022, full cost of NSTAR in terminal rate base
 - FIS rate expected to increase significantly under all scenarios
- Scenario 6 achieves better balance of rate increases for Terminal and FIS
 - Following slides show Scenario 6 funding plan in greater detail

Scenario 6: Uses of PFCs 2015 - 2022

	2015	2016	2017	2018	2019	2020	2021	2022
SOURCES								
Beginning balance	76,927	93,715	22,780	9,136	0	-	-	-
Collections & interest	74,359	77,370	78,585	80,728	83,009	85,499	87,636	89,827
USES - Debt Service								
PFC Backed Bonds								
Third Runway	5,695	5,695	18,915	20,129	20,128	18,768	18,766	18,770
Conc A & STS	13,076	13,073	-	-	-	-	-	-
Revenue Bonds								
Third Runway	25,262	26,394	28,741	28,742	28,931	28,931	28,586	22,699
Conc A, STS, Baggage	8,538	7,406	5,059	5,058	4,869	5,738	7,858	14,555
IAF	-	-	-	-	-	23,513	23,663	23,749
NSAT	-	-	-	-	-	-	-	1,072
USES - PAY GO								
IAF	-	20,000	30,000	30,000	20,000	-	-	-
NSAT	-	70,738	4,515	-	4,080	1,410	-	-
Airfield/Noise	-	-	-	935	-	2,140	2,140	-
Other Terminal	5,000	5,000	5,000	5,000	5,000	5,000	6,624	8,983
Ending balance	93,715	22,780	9,136	0	-	-	-	-

- Built up PFC balance to reduce debt on major upcoming projects: IAF and NSAT
- In 2020 and beyond, use 90% of PFCs to pay debt service

PFCs used to benefit airfield, terminal and FIS cost centers

Percent of Eligible Debt Service Paid with PFCs

	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Total 2015-2022
1. PFC-Backed Bonds:									
Eligible Amount	18,770,100	18,767,100	18,914,600	20,128,600	20,128,375	18,767,500	18,765,500	18,770,000	153,011,775
Less: Usage	(18,770,100)	(18,767,100)	(18,914,600)	(20,128,600)	(20,128,375)	(18,767,500)	(18,765,500)	(18,770,000)	(153,011,775)
Remaining	-	-	-	-	-	-	-	-	-
% of DS Covered by PFCs	100%	100%	100%	100%	100%	100%	100%	100%	100%
2. Airfield (3rd Runway):									
Eligible Amount	25,261,628	26,393,649	28,741,445	28,741,573	28,930,995	28,930,638	28,586,392	22,699,057	218,285,377
Less: Usage	(25,261,628)	(26,393,649)	(28,741,445)	(28,741,573)	(28,930,995)	(28,930,638)	(28,586,392)	(22,699,057)	(218,285,377)
Remaining	-	-	-	-	-	-	-	-	-
% of DS Covered by PFCs	100%	100%	100%	100%	100%	100%	100%	100%	100%
3. Terminal (Existing + NSAT)									
Eligible Amount	13,547,453	14,582,052	13,269,843	13,135,298	32,877,884	32,879,387	32,877,018	34,298,942	187,467,878
Less: Usage	(8,538,372)	(7,406,351)	(5,058,555)	(5,058,427)	(4,869,005)	(5,737,558)	(7,857,932)	(15,626,497)	(60,152,696)
Remaining	5,009,081	7,175,702	8,211,288	8,076,870	28,008,880	27,141,830	25,019,086	18,672,446	127,315,181
% of DS Covered by PFCs	63%	51%	38%	39%	15%	17%	24%	46%	32%
4. FIS (IAF):									
Eligible Amount	-	-	-	-	-	28,946,858	28,946,858	28,946,858	86,840,575
Less: Usage	-	-	-	-	-	(23,513,221)	(23,662,817)	(23,748,902)	(70,924,939)
Remaining	-	-	-	-	-	5,433,637	5,284,042	5,197,956	15,915,636
% of DS Covered by PFCs						81%	82%	82%	82%

- Note: Figures in table based on Scenario 6
- PFC backed bonds are first priority
- 100% of Third Runway debt paid with PFCs

IAF debt service paid by PFCs as needed to achieve market FIS rate

PFCs by Cost Center 2015 - 2022

Uses - \$000	2015	2016	2017	2018	2019	2020	2021	2022	2015-22
Airfield	30,956	32,088	47,656	49,805	49,059	49,838	49,492	41,469	350,364
Terminal	26,614	96,217	14,574	10,058	13,949	12,147	14,482	24,609	212,650
FIS	-	20,000	30,000	30,000	20,000	23,513	23,663	23,749	170,925
	57,570	148,305	92,230	89,864	83,009	85,499	87,636	89,827	733,939
Percent									
Airfield	54%	22%	52%	55%	59%	58%	56%	46%	48%
Terminal	46%	65%	16%	11%	17%	14%	17%	27%	29%
FIS	0%	13%	33%	33%	24%	28%	27%	26%	23%

- Note: figures in table based on Scenario 6
- Uses include pay-go and debt service
- Highest use of PFCs will be for Airfield (Third Runway)

Use for FIS (IAF) will range between 0% - 33% annually, total 23% during this period

Cumulative Uses of PFCs: 1992 - 2049

Uses \$000	1992-2014	2015 - 2022	2023 - 2049	1992-2049
Cost Center				
Airfield	585,075	350,364	383,180	1,318,619
Terminal	443,839	212,650	2,535,898	3,192,387
FIS	-	170,925	482,077	653,002
Total	1,028,913	733,939	3,401,155	5,164,007
Percent				
Airfield	57%	48%	11%	26%
Terminal	43%	29%	75%	62%
FIS	0%	23%	14%	13%

- Note: figures in table for 2015 – 2049 based on Scenario 6
- Majority of PFCs through 2014 devoted to Airfield (Third Runway)
- Future PFCs will be focused on terminal development needs per master plan
- Strategic use of PFCs allows airport to moderate rate impacts

Based on long-term view, use of PFCs by cost center is “balanced”

Funding Plan Recommendation

- Construct IAF funding plan based on principles:
 - Maintain competitive CPE
 - Maintain competitive rates throughout airport: landing fee, terminal rents, FIS
- Target FIS rate for new IAF at no more than the highest rate of competitor airports
 - Use PFC funding and Port cash contribution to achieve targeted FIS rate

Build IAF funding plan based on Scenario 6; be prepared to adjust to changing conditions (e.g., IAF cost, SLOA IV provisions, FIS market rates, PFC level)

Next Steps

- Adjust as needed based on commission feedback
- Use in preparation for airport bond issue
- Submit IAF project to airlines for MII (majority-in-interest) vote – May



APPENDIX

Appendix Overview

- Other than the first slide, which provides background on FIS rate methodologies, the remaining slides in the Appendix were included in January 27 presentation to Commission
- Included again for background



Airports Use Different Methods to Develop FIS Rates

New Slide

*Draft: for review and revision,
not for publication*

Comparability of Peer Airport Data

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- The table below summarizes where an FIS fee is charged at peer airports and if the fee is based on the cost of operating and maintaining the FIS facility
- LAX, PDX, and SEA impose an FIS fee using costs allocable to the FIS facility
 - The FIS fee at LAX is calculated after duty free and foreign exchange concession revenues offset FIS facility costs
 - The amount of FIS facilities used in the calculation of the FIS fee at PDX is reduced by the number of passengers using the facility

Airport Name	Impose an FIS Fee	Allocable FIS Facility Costs to Calculate the Fee	Revenue-Sharing Used to Calculate the Fee
Denver International Airport (DEN)	Yes	No	No
Los Angeles International Airport (LAX)	Yes	Yes	Yes
Portland International Airport (PDX)	Yes	Yes, but with certain adjustments	No
San Francisco International Airport (SFO)	No. An FIS fee equivalent is presented in this document	Not applicable	Not applicable
Seattle-Tacoma International Airport (SEA)	Yes	Yes	No
Vancouver International Airport (YVR)	No. An FIS fee equivalent is presented in this document	Not applicable	Not applicable

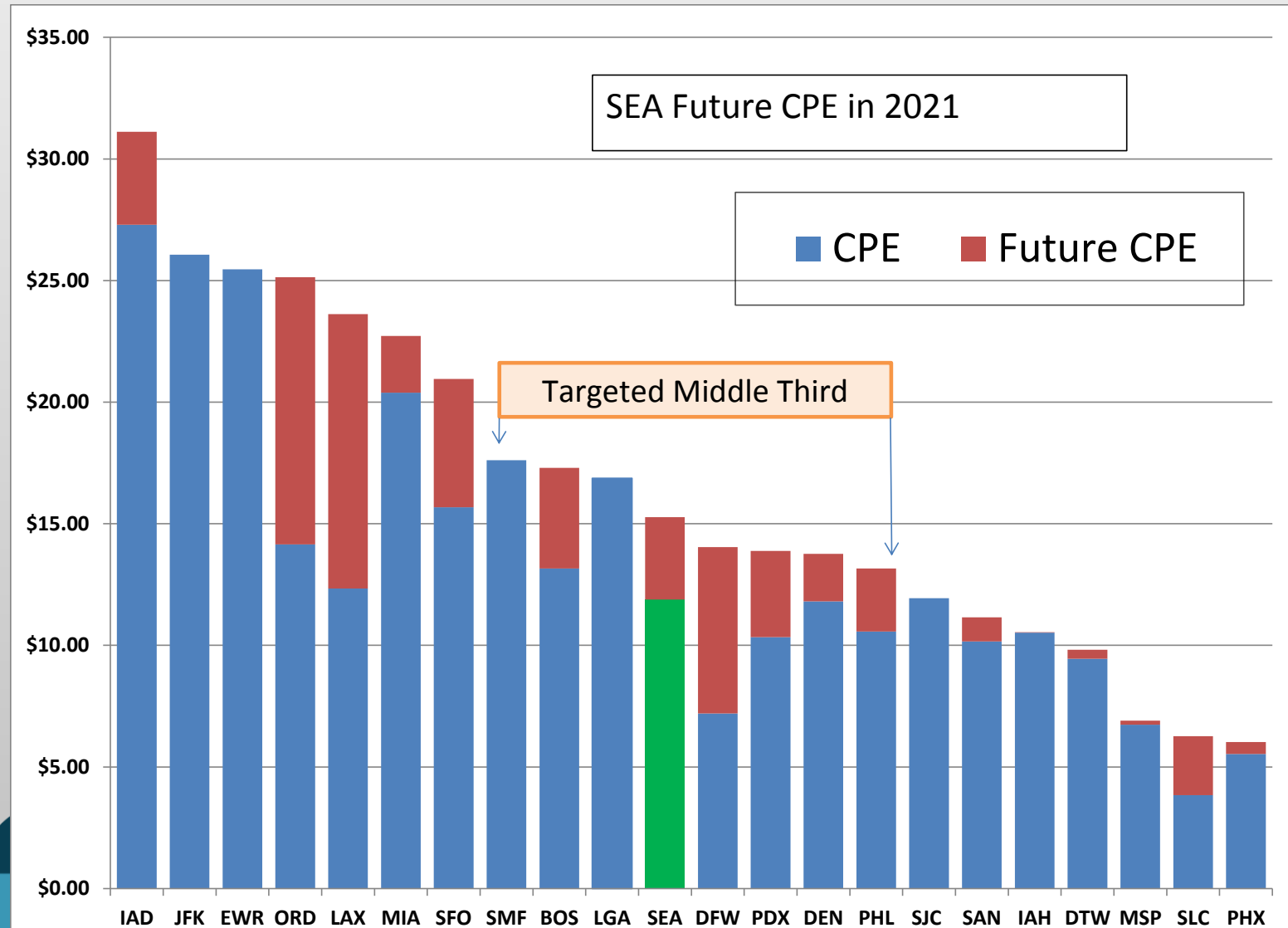
Background Concepts

- 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

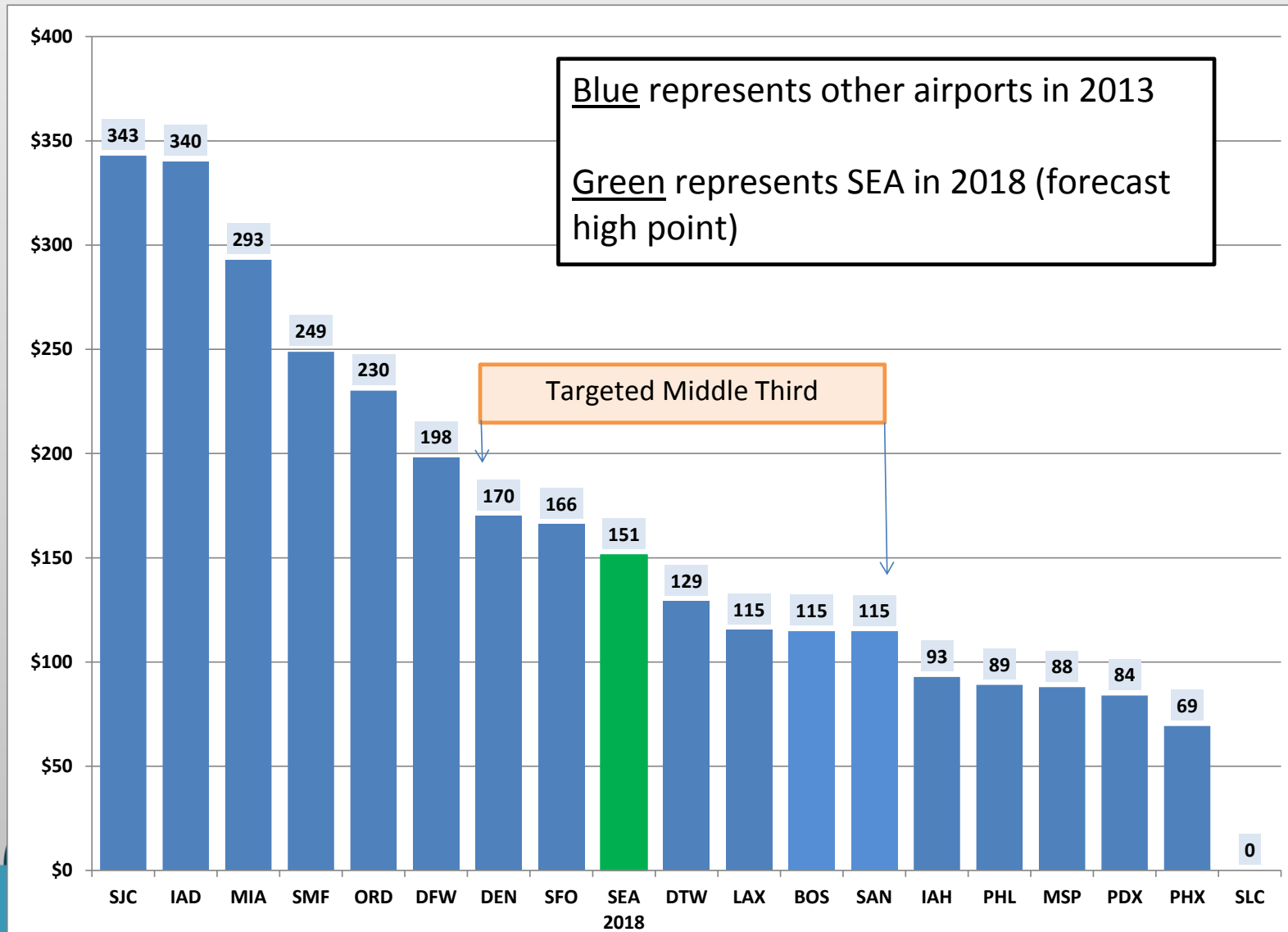
Background Concepts

- 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.

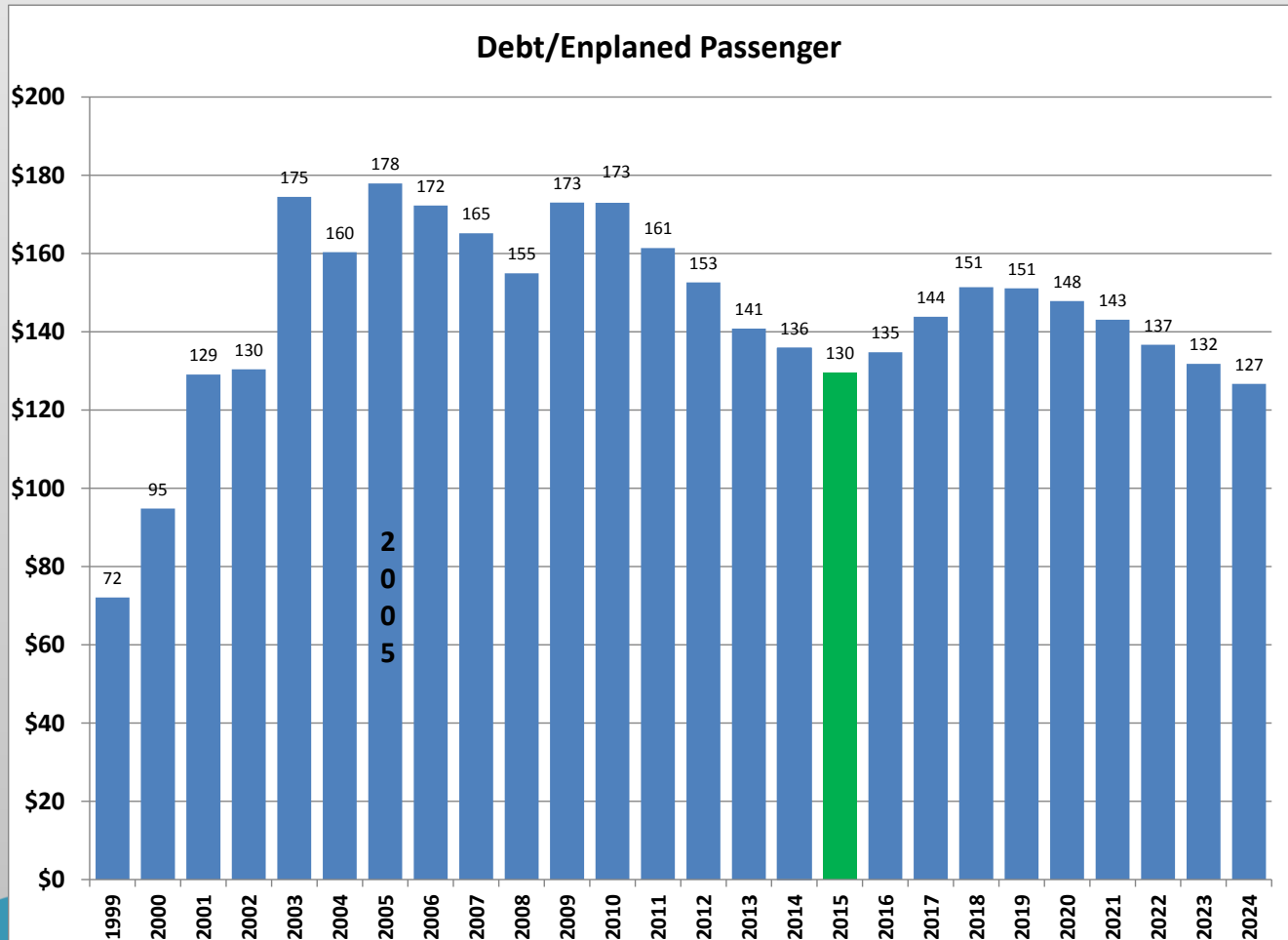
Future CPE – Comparison to Peer Airports



Future Debt Per Enplanement – Comparison to Peer Airports

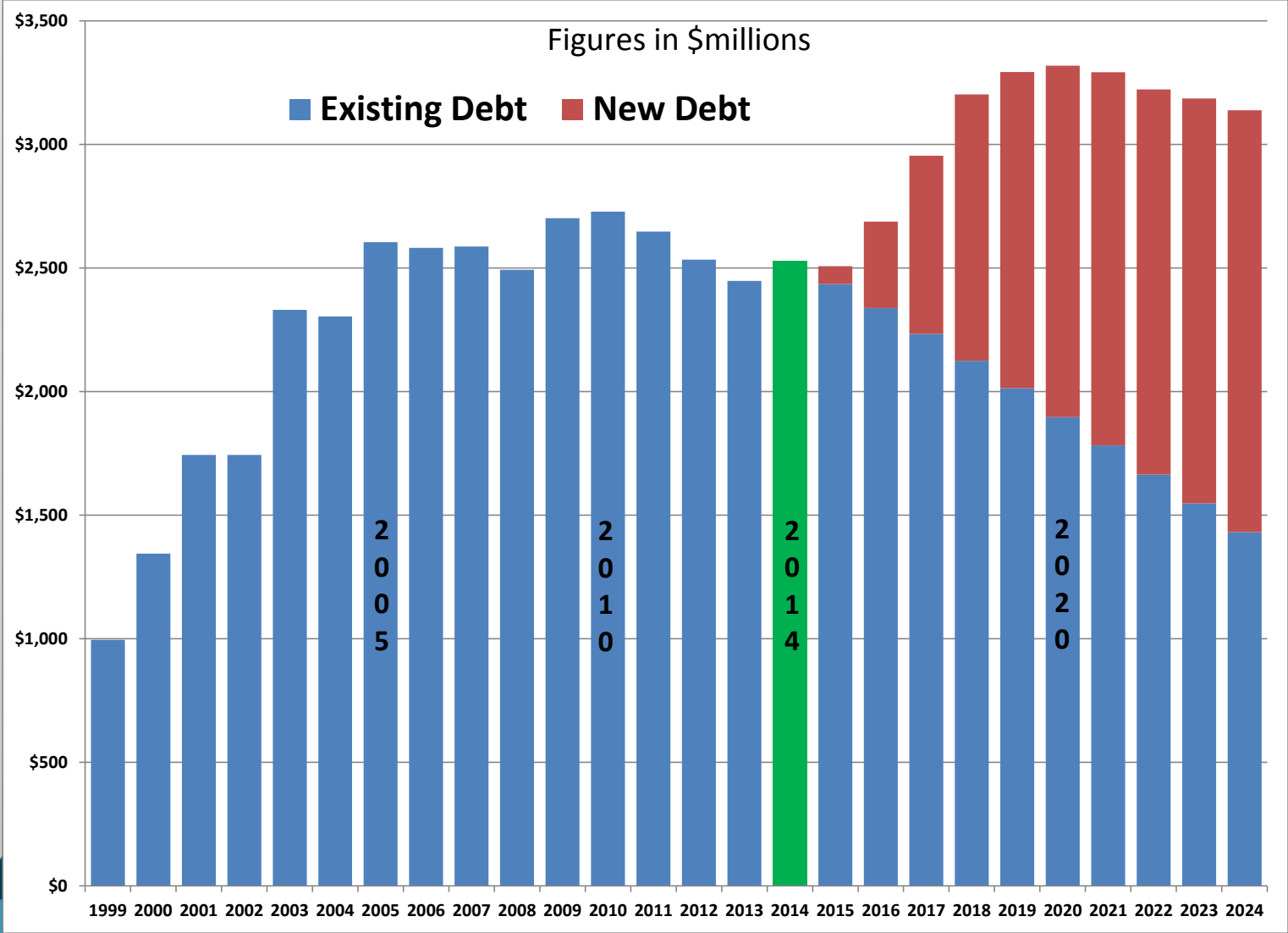


Debt Per Enplaned Passenger – History and Forecast



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

Debt Level – History and Forecast



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%

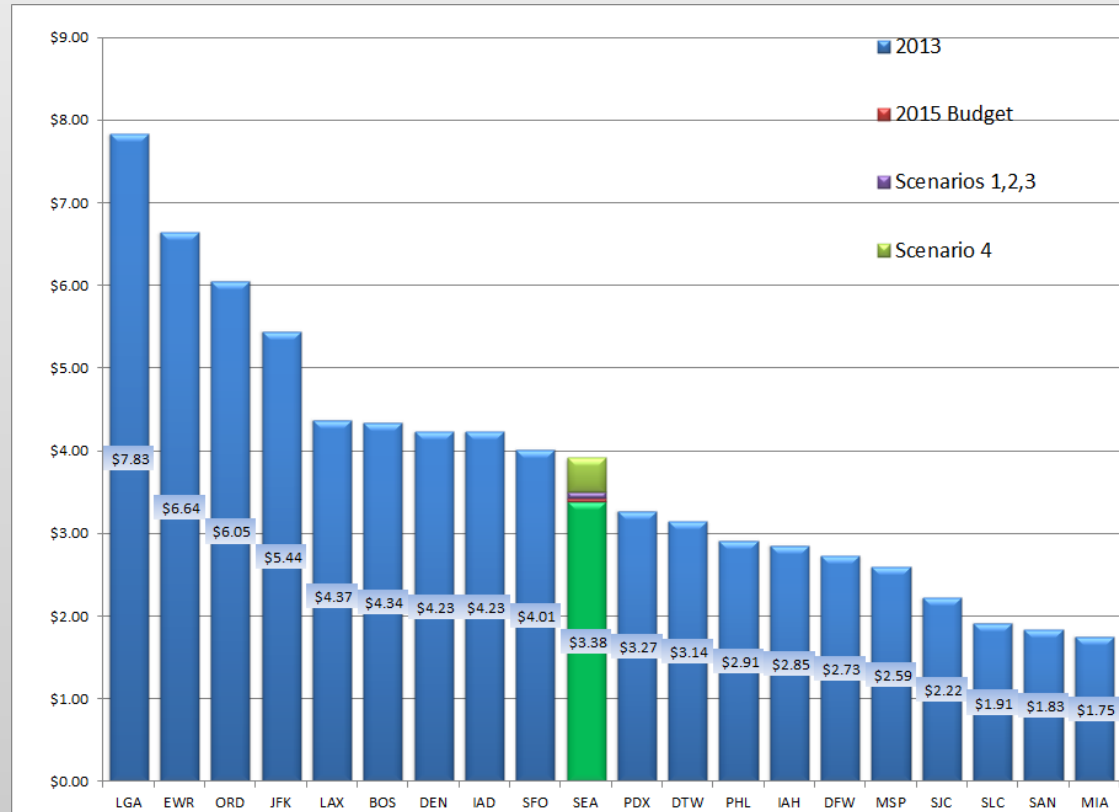
2015 Budget: IAF cost = \$344 million, PFCs pay 100% of IAF debt service

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



Peer Airport Landing Fees

2013 Landing Fees Rate For Peer Airports

